WESTPEAK RESEARCH

December 27, 2016

Intertape Polymer Group Inc. (ITP:TSX)

Materials - Containers & Packaging

A Turnaround on a Roll

Company Profile

Intertape Polymer Group (ITP) operates in the specialty plastic and packaging industry. The company is the number one or two supplier of a variety of tapes (box sealing & industrial tapes), polyethylene and specialized polyolefin film (primarily pallet wrapping film), and woven coated fabrics (WCF). ITP's wide-ranging product lines serve various end-markets, including the fulfilment and packaging, building and construction, transportation, agriculture, aerospace, military, and oil and gas industries. ITP operates primarily in North America, with 6.8% and 85.8% of revenues coming from Canada and the U.S., respectively.

Thesis

ITP is shifting sights from repairing its balance sheet and improving its product mix to reinvesting in its operations, which will provide further support for margins and earnings. Management's goal to grow revenue to USD$1.5B and EBITDA to USD$225M in the next 5-7 years is lofty, but demonstrates their confidence in the firm's ability to grow both organically and inorganically. Additionally, we feel shares have been unfairly punished due to non-material issues related to slow ramp-up and flooding of a facility in South Carolina. While ITP does have some near-term catalysts as it proves its ability to execute growth initiatives, we believe that ITP is a good company at a cheap price, and investors should commit long-term capital to this name.

Valuation & Recommendation

ITP currently trades at CAD$24.77, but we believe a fair price for the stock is CAD$30, representing 20% upside. This CAD$30 share price is on the conservative end of our valuation spectrum. We recommend a buy on this stock.

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Equity Research	Canada
Price Target	**CAD$ 30.00**
Rating	Buy
Current Share Price, close	CAD$ 24.77
Total Return	20.0%

Key Statistics	
52 week H/L	CAD$25.74/ CAD$15.46
Market Capitalization	USD$1074M
Net Debt	USD$194M
Enterprise Value	USD$1268M
Net Debt/Enterprise Value	15.3%
Diluted Shares Outstanding	60.9M
Free Float %	94.0%
Dividend Yield	3.0%
LTM P/E	23.8x
LTM EV/EBITDA	14.4x

WestPeak's Forecast

($USD)	2016E	2017E	2018E
Revenue	$805M	$845M	$910M
EBITDA	$110M	$116M	$133M
EBIT	$71M	$76M	$84M
Net Income	$41M	$49M	$54M

Company Profile

ITP operates in the specialty plastic and packaging industry. The company is the number one or two supplier of a variety of tapes (box sealing & industrial tapes), polyethylene and specialized polyolefin film (primarily pallet wrapping film), and woven coated fabrics (WCF). ITP's wide-ranging product lines serve various end-markets, including the fulfilment and packaging, building and construction, transportation, agriculture, aerospace, military, and oil and gas industries. The majority of the company's products are sold through paper, packaging, and industrial distributors across multiple channels. A few exceptions exist, including the sale of tape and films to large customers such as Amazon and UPS, and the sale of WCF, which are sold directly to end-users. ITP operates primarily in North America, with 6.8% and 85.8% of revenues coming from Canada and the U.S., respectively.

Product Line Overview

Tapes

Source of Figure 1: Company Presentation

ITP's tapes fall into one of two overarching categories (1) carton/box sealing tapes and (2) industrial and specialty tapes. The tape segment is the company's primary business as it accounts for the largest revenue and margin contribution (represented 67.7% of revenues in 2015). ITP distributes tapes under reputable brands such as Intertape, Central, and American, to an industrial distribution network, retailers, and third parties under white label agreements. According to management, the company is the second-largest tape manufacturer in North America, behind 3M.

The company's extensive cost-reduction initiatives, R&D efforts, and reduced sales of lower-margin products have significantly improved margins in the tape segment. We believe ITP's effort of developing a moat in the tape segment through effective cost leadership is essential to the relatively low growth tape segment.

According to reports by market research firm Technavio, the global tapes market is expected to grow by approximately 5-6% in volume per year through 2020. We expect this trend will continue into the foreseeable future for both carton sealing and industrial tapes given demand for online shipments, just-in-time (JIT) logistics (increased number of smaller packages), an increase in the number of homes being built, and a general increase in U.S. manufacturing.

The tape industry is led by 3M Co., with ITP being the second largest tape manufacturer. As a result, within the tapes industry, 3M tends to be a price setter and all others (including ITP) are largely price takers. We believe the industry is relatively conservative on pricing competition, but if this were to accelerate, ITP could be negatively affected through lower margins.

Films

Source of Figure 2: Company Presentation

ITP manufactures a variety of polyethylene and specialized polyolefin films, including stretch wrap, shrink film, and air pillows for industrial and retail use. The film industry is highly competitive, oversupplied, and has thin margins. The film segment contributed 16.4% of 2015 revenues; we estimate that the business is the least profitable due to the highly competitive nature of the business (segmented margins are not reported by ITP).

The films segment has been facing continued revenue and margin headwinds due to the nature of how the product is sold and technological innovation. Films are sold on a dollar-per-pound basis and technological improvements have enabled thinner films to be produced with similar packaging properties. To reduce costs, ITP consolidated its film operations in Tremonton, Utah, in 2012 by transferring its Truro, Nova Scotia, film operations to Tremonton.

We believe most revenue through this business unit is very sticky. Under its Interpack brand, ITP provides complementary packaging systems that offer efficient packaging processes for a variety of industrial customers in the fulfilment industry. According to management, by using such equipment, customers improve productivity and increase repurchases of ITP products.

Woven Coated Fabrics (WCF)

Source of Figure 3: Company Presentation

The WCF segment manufactures engineered coated polyolefin fabrics used for protective coverage, industrial packaging, and water reservoir linings. Much like other business segments, the company has simplified its product offerings, reduced costs in the manufacturing process, and reduced sales of its lower-margin products over the last few years. ITP is able to leverage its relative inter-industry scale and know-how to compete in this high growth and high margin industry. Therefore, although WCF is ITP's smallest segment in terms of revenue impact (15.1% of 2015), we believe it represents an area of considerable growth.

Management

Gregory Yull, Director, CEO, and President

Gregory Yull is the son of Melbourne F. Yull (founder) and has been the CEO, President, and a Director of ITP since June 8, 2010. Prior to becoming CEO, Mr. Yull served in a number of roles at the company, including President of the Tapes and Films Division from 2005 to 2010, where he was responsible for the North American and European operations spanning 15 locations. He also served as the President of Distribution Products at ITP from 2005 to 2010 and held various positions in sales and product management.

Mr. Yull's compensation package is composed of cash compensation of approximately USD$1M per year and stock based compensation of approximately USD$1M per year. Mr. Yull currently owns 574K shares (current value of approximately CAD$14.5M), or 1% of total shares outstanding. It is also worth noting that Melbourne F. Yull continues to maintain the fourth largest ownership position of ITP with 2M shares (current value of approximately CAD$50M), or 3% of total shares outstanding.

Jeffrey Crystal, CPA, CA, Chief Financial Officer

Jeffrey Crystal has been CFO of ITP since May 9, 2014. Mr. Crystal has more than 17 years of experience in an extensive range of financial roles. Most recently, Mr. Crystal served as CFO of American Iron & Metal, a similarly sized (in comparison to ITP) metal recycler and solder manufacturer.

Mr. Crystal's compensation package is composed of cash compensation of approximately USD$590K per year and stock based compensation of approximately USD$280K per year. Mr. Crystal's ownership stake in ITP is relatively small, but we expect this to climb in upcoming ownership filings.

Turnaround

Following years of rapid growth during the 1990s, ITP began struggling in the mid-2000s, as the company aggressively pursued acquisitions and its debt-load began to rise. Expected synergies were not fully realized, and rising raw material costs further impaired the company's ability to improve margins. Founder, CEO, and Chairman, Melbourne F. Yull stepped down in 2006, and Dale McSween was named interim CEO.

Soon after, ITP announced a strategic review which resulted in the proposed sale of the company to the private equity firm Littlejohn & Co. for USD$500M, which was rejected by shareholders. The company then worked to secure new banking arrangements (a USD$200M asset-based loan) and an equity injection prior to developing plans to re-establish sales growth and margin improvements.

In June 2010, Gregory Yull was named President and CEO. Even though the U.S. economy was showing signs of improvement, the company still had to cope with thin margins, relatively soft demand for its products, and liquidity concerns. At that turning point, ITP put together a dramatic financial turnaround, primarily driven by (1) improving pricing control throughout the product line and supply chain, (2) reducing production inefficiencies by re-engineering processes to eliminate excess labour requirements, (3) pushing sales of higher-margin products, and (4) a strong upturn in market conditions (i.e., its competitors shifted their focus to margin growth from market-share growth).

The initiatives undertaken by management led to a significant turnaround in the company's operations and a corresponding significant increase in its share price. Within two years of the turnaround, ITP had exceeded its "long-term target gross margin of 18% to 19%," and ROIC climbed from -9.9% in 2010 to 12.98% in 2012. At current time, ROIC rests around 15%.

Economic Moats

Vertical Integration

ITP has extensive control over its manufacturing process, from purchasing raw materials to producing finished goods by extruding a substrate, coating with adhesives, weaving fabrics, or rolling and cutting. The majority of ITP's cost structure consists of raw materials and equipment overhead. Labour costs are relatively small due to the highly automated nature of the business which many smaller competitors cannot achieve.

ITP's ability to manufacture its own adhesives and films gives it a competitive advantage and supports the company's cost-reduction and R&D efforts. While market prices for the raw materials have experienced significant volatility in recent years, ITP's vertical integration has enabled it to better control costs and manage margins.

Scale, Track Record, and Technology

Staying competitive in a relatively mature industry is an ongoing challenge which requires constant innovation, improvements, and brand building. ITP is constantly being squeezed by suppliers and customers. On the supply side, raw material suppliers are typically large global producers (e.g., Dow Chemical Company) that are able to pass on higher commodity costs to ITP relatively easily. On the customer side, ITP's customers are typically larger distributors with broad footprints and superior branding power that can apply meaningful pricing pressure.

That said, we believe ITP has a number of competitive advantages, such as operating scale within the junior packaging products industry (ex. 3M), production technology advantages through self-engineered processes, know-how, brands, design capability, and investment capacity. It also has a leading position (number-one or number-two position) in the majority of its product categories, including carton sealing tapes, certain industrial and specialty tapes, and building, construction, and agro-environmental fabrics, making it a supplier with a complete product offering for many companies.

Sticky & Repetitive Revenue

The majority of ITP's revenues are to industrial distributors and large customers (e.g., Amazon and UPS). These customers represent repeat sales which are relatively sticky due to the moderate cost of switching products and manufacturer due to the complete product offering that ITP offers (especially if they are using ITP's complementary packaging systems).

Strategy & Catalysts

Cost Savings

ITP's cost reductions have historically come in the form of plant consolidations, increased production efficiencies, reduced overhead, and eliminating low-margin product lines. Going forwards, we expect this to continue (albeit at a slower pace), with an increased concentration on lower material/input costs.

In its capital plans for 2016, the company outlines its initiatives for capacity and efficiency enhancements in water-activated tape, shrink and stretch film, and specialty tape. The investments are expected to be completed in 2016 and contribute to continued margin improvement through our forecast horizon. Although the transfer of production to the Blythewood facility has had some delays, we have confidence in the company's ability to realize annual cost savings of (at least) USD$13M beginning in 2017/2018. The company targets a 15% minimum investment hurdle rate (on an IRR basis) on high-return projects. We believe the company has several outstanding high-return projects (which are typically cost-reduction initiatives) including further consolidating its film operations. We expect these, and others, to be completed in coming years and continue to improve the company's gross margins.

Petroleum and natural-gas based resins are the primary input in tape, film, and WCF. According to ITP, raw materials such as resins, paper, adhesives, and others, account for approximately two-thirds of the company's cost of goods sold. ITP also discloses that petroleum and natural-gas based resins constitute approximately two-thirds of the company's raw materials. Therefore, we can determine that approximately 44% of ITP's cost of goods sold is directly related to petroleum and natural-gas based resins. While this sensitivity to resin prices may raise alarm, it is worth noting that North American resin producers are expected to add capacity in the next couple of years. In particular, Dow Chemical is expected to add more than 2 billion pounds of capacity of enhanced polyethylene and polyolefin plastomers starting in 2017. This nearly 20% increase in capacity should result in excess supply in the near-to-mid-term and result in lowered input prices.

M&A Optionality

	Better Packages, Inc.	TaraTape	Powerband
Strategic rationale	Expansion: E-commerce	Strengthen Market position: Tape manufacturing	Global Expansion: Tape manufacturing
Core competency	Leading supplier of water-activated tape dispensers	Manufacturer of filament and pressure sensitive tapes	Global supplier of acrylic tapes and stretch films
Purchase price	$15.9MM	$11.0MM	~$42MM
Annual revenue(1)	$18MM	$20MM	~$32MM
Acquisition date(2)	April 7, 2015	November 2, 2015	September 16, 2016

Source of Figure 4: Company Presentation

We believe ITP's acquisition strategy is a core growth initiative as ITP's fragmented industry should provide the company with a number of opportunities, both large and small. We believe the company will be able to apply its core skills in cost reduction and product launches and, as such, realize cost synergies from well-run and easy-to-integrate target companies.

Based on recent transactions, it appears that ITP is looking to acquire operations at valuations of 5-8x EV/EBITDA (In comparison, ITP trades at 14.4x), with multiples naturally varying depending on the target's size, technology, cash generation, etc. ITP is more likely, at least initially, to purchase smaller operations, most likely businesses with revenues of USD$30M to USD$60M. While acquiring a number of smaller companies may prove more time-consuming (versus a larger-sized transaction), we believe it offers an easier avenue for realizing cost and revenue synergies, lower valuations (more accretive), and significantly less risk.

We believe the company's preference to acquire North American operations should help integration efforts as it lets ITP leverage its existing platform and overhead. However, expansion into Asia-Pacific would enable the company to leverage the region's lower-cost structure and above-average growth rates, and adding to its European operations could strengthen its existing platform and accelerate market penetration. While family-owned and operated packaging companies may prove more accretive (i.e., lower multiples and the potential to improve), we believe private-equity-owned and operated companies could provide an opportunity to sidestep any potential timing and succession issues.

In September, 2016, ITP announced its intention to acquire a majority stake (74%) in Powerband Industries (India). The transaction details include a purchase price of USD$42M, last fiscal year revenues of USD$32M, and an estimated transaction multiple of 7-8x EV/EBITDA. The acquisition provides the company with its first manufacturing facility in Asia, a region that often enjoys a cost advantage in certain areas, including raw materials and labour. Moreover, whereas Powerband would have been a low-cost competitor to ITP of (relatively commoditized) acrylic adhesive-based tapes, as a subsidiary of ITP, the company may now leverage Powerband's cost-competitiveness and cross-sell its products with a broader customer reach.

The acquisition of a majority stake in Powerband represents further evidence that the new management team is acquiring smart businesses at reasonable valuations. Unlike the previous management team, this group has an established track record of operational efficiency, combined with a conservative approach to acquisitions (i.e., valuations and cost/revenue synergy targets), which should make the acquisition strategy a compelling method to value creation.

With everything said, we do note that competition for market consolidation will eventually reduce returns from acquisitions to the point where it is no longer NPV positive and therefore this is not an indefinite growth strategy.

R&D Initiatives

On average, the company allocates approximately 1% of revenues to R&D. This compares with R&D behemoth 3M at 6% and more comparable peers such as Bemis Company and Berry Plastics at 1% and 0.6%, respectively. Product innovation has been essential to maintaining market share in the company's existing core product areas and expanding into niche higher-margin verticals, such as electronics, transportation, aerospace, and oil and gas.

To date, the sale of new, higher-margin products has enabled the company to steadily trim the sale of its lower-margin products, resulting in significantly improved margins (but reduced sales growth). The company's new products represented approximately 20% of total revenue in 2015 (new products are defined as products that are less than five years old). We expect that to stay highly competitive in this mature industry that R&D spending will have to rise.

Returning Capital

We expect the company to continue returning capital to shareholders in the form of dividend increases and share repurchases. The company adopted a CAD$0.08 per share semi-annual dividend in 2012 and has raised it a number of times since then to the current CAD$0.14 quarterly dividend. The company also renewed its NCIB program on July 12, 2016, for the repurchase and cancellation of up to 4M shares (representing approximately 7.2% of ITPs public float). The company repurchased USD$7M shares in 2014, USD$28.5M in 2015, and USD$48.7M in the first three quarters of 2016. Free cash flow payout to equity without growth and reinvestment [(Dividends + $ share buybacks)/(Avg. S/E)] has risen from 2% in 2012 to 27% in 2015. We expect a health capital return program to continue to exist.

Industry Analysis

Competition

Staying competitive in a relatively mature industry is an ongoing challenge which requires constant innovation, improvements, and brand building. ITP is constantly being squeezed by suppliers and customers. On the supply side, raw material suppliers are typically large global producers (e.g., Dow Chemical Company) that are able to pass on higher commodity costs to ITP relatively easily. On the customer side, ITP's customers are typically larger distributors with broad footprints and superior branding power that can apply meaningful pricing pressure.

On the mergers and acquisitions front, we find that ITP is in a strategically dominant position. The firm is the second largest tape manufacturer in North America (only behind behemoth 3M), has some of the lowest debt levels among peers (2.3x Debt/EBITDA vs. peer average at 2.7x), and is one of few firms pursuing growth through mergers and acquisitions. Research on a sample of peers leads us to believe that many firms are targeting a debt level below 2.5x Debt/EBITDA, and therefore, many peers are focused on balance sheet repair—not growth like ITP.

Capital allocation among peers varies wildly, but few appear to be pursuing aggressive acquisition strategies. Those firms which are not focused on debt pay down are largely focused on operation optimization, cost optimization, and a small number on acquisition strategies.

Top line growth

According to reports by market research firm Technavio, carton sealing tapes are expected to grow at an above-GDP rate. Publicly available information by Technavio suggests that demand will likely exceed a 5% CAGR (by volume) through 2020. We expect overall demand to be driven by online ordering, a rebound in manufacturing, and continued growth in the economy.

Industrial tape growth expected to outpace other tape categories. According to Technavio, demand for tape designated for industrial use will exceed a 6% CAGR through 2020. We see this as driven by the ongoing rebound in the building and construction industry, the related increased paint demand, and automotive applications. Electrical tapes (and other industrial and specialty tapes) are also expected to see increased demand from an acceleration in U.S. manufacturing activity.

For films and WCF, there is no publicly available industry analysis. Therefore, we estimate that films will grow similar to carton sealing tapes due to the similar nature of their uses. For WCF, we estimate an industry growth rate which is in line with industrial tape growth due to the similar nature of their uses.

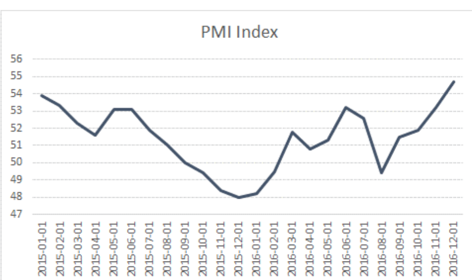
Customer Analysis

ITP is well diversified in terms of customer base and end market. ITP's customer base consists primarily of industrial distributors, with only one customer representing more than 5% of sales. This distinct concentration is due to the merger of International Paper's Xpedx and Bain Capital's Unisource Worldwide, which formed the largest industrial distributor in North America.

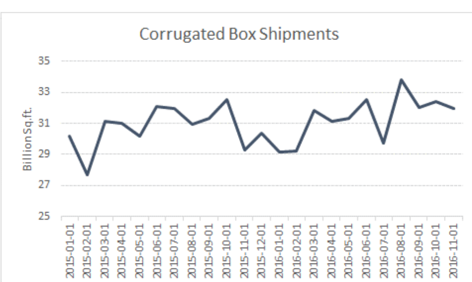
ITP sells its products into an array of different end markets, including; aerospace, automotive aftermarket, building and construction, electrical and electronic, food processing, general manufacturing, HVAC, monuments and signs, packaging, painting, and transportation. This diverse end market exposure reduces the company's reliance on any one sector or industry and helps to mitigate its business risk.

We believe that smaller distributors tend to have stronger relationships with ITP than 3M due to availability of management and a more personalized sales approach. ITP offers distributors value, as it presents an alternative to 3M and allows distributors to offer its customers more than one product within the same product category, partially mitigating 3M's power and making distributors more valuable to their own customers.

Economic Indicators



Source of Figure 5: Bloomberg



Source of Figure 6: Bloomberg

Two indicators of demand for ITP's products are corrugated box shipments and U.S. industrial production. ITP allegedly seals more boxes than any other company in North America, so a significant driver of the company's performance is corrugated box shipment volumes. Industrial production is also positively correlated with ITP's sales, as increased production leads to increased demand for packaging materials, industrial tapes, and certain woven coated fabrics. Recent PMI strength is a generally positive sign for the company in the near-to-mid-term. Corrugated box shipments have been notably stable, but on an upward trend driven, in part, by increased online retailing and JIT logistics.

Comparable Company Valuation

3M Company (MMM-N)

3M Company operates through five segments, serving a wide variety of customers with a wide ranging product line. The company's industrial segment is a good comparable for ITP.

AptarGroup Inc. (ATR-N)

AptarGroup, Inc. is a provider of a range of packaging, dispensing and sealing solutions, primarily for the beauty, personal care, home care, prescription drug, consumer healthcare, injectables, food, and beverage markets.

Avery Dennison Corp. (AVY-N)

Avery Dennison Corporation produces pressure-sensitive materials and a range of tickets, tags, labels, and other packaging products.

Bemis Company Inc. (BMS-N)

Bemis Company, Inc. manufactures multilayer polymer, blown, and cast film structures to produce packaging sold for food and personal care product applications, as well as non-food applications.

Berry Plastics Inc. (BERY-N)

Berry Plastics Group, Inc. has three segments: Health, Hygiene, and Specialties; Consumer Packaging, and Engineered Materials. The Company sells its products to end markets, such as healthcare, personal care, and food and beverage.

CCL Industries Inc. (CCL.B-T)

CCL Industries, Inc. produces specialty packaging. The Company operates through three segments: the Label Segment, Avery, and the Container Segment.

Greif Inc. (GEF-N)

Greif, Inc. is a producer of steel, fiber, and plastic drums, rigid intermediate bulk containers, closure systems, transit protection products, water bottles, and reconditioned industrial containers.

Sealed Air Corp. (SEE-N)

Sealed Air Corporation is engaged in food safety and security, facility hygiene, and product protection business.

Sonoco Products Co. (SON-N)

Sonoco Products Company is a manufacturer of industrial and consumer packaging products and a provider of packaging services.

Winpak Ltd. (WPK-T)

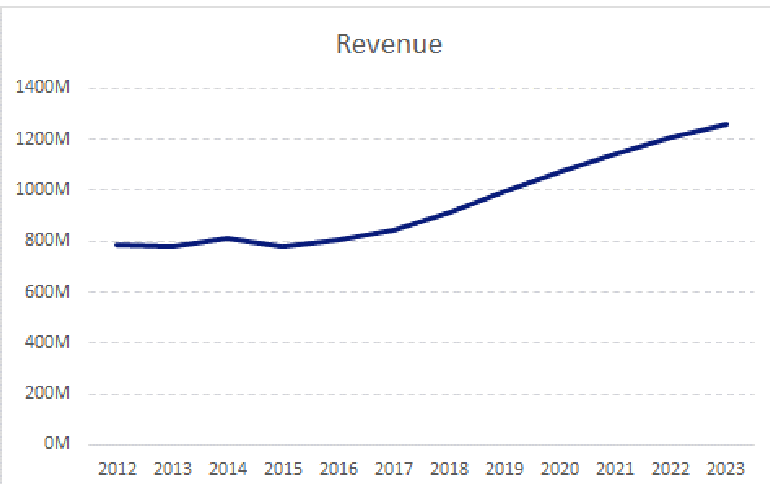
Winpak Ltd.'s operating segments include modified atmosphere packaging, specialty films, rigid containers, lidding, biaxially oriented nylon, and packaging machinery.

Comparable Company Valuation Summary

When evaluating the output of our comparable company valuation, we must address the fact that valuing ITP based on its peers isn't entirely rational. This is due to the fact that the ITP valuation thesis is one of acquisition based growth, and this will not be reflected in the trading multiples of peers which are, for the large part, not pursuing an aggressive acquisition strategy. As such, the comparable company valuation values ITP between C$20 and C$27, with the midpoint being C$23.50. This number would be a valid estimate of ITP's share price if it was not pursuing a rapid turnaround and expansion. However, as ITP is, indeed, pursuing rapid turnaround and growth, we don't put much weight on the comparable company valuation.

Discounted Cash Flow Valuation

Revenue Estimates



Source of Figure 7: Company Reports & WPRA Estimates

Over the forecast horizon, we've assumed reasonably conservative organic revenue growth and substantial inorganic growth driven by numerous tuck-in acquisitions. For organic growth, we've forecasted that revenues will grow at 3.5% per year, with 3.0% attributable to volume growth and 0.5% attributable to price increases, before tapering off to near-GDP growth. We feel this organic growth is very conservative given market research firm Technavio forecasts growth of around 5-6% per year in the tapes industry. We've estimated that inorganic growth will be driven by a USD$60M acquisition each year at approximately 7x EV/EBITDA over the forecast horizon, funded through internal cash flow and debt. We've also estimated that returns from the acquisitions falling over time due to industry consolidation and competition.

Costs

Over our forecast horizon, we expect that the EBITDA margin will climb approximately 300bps from 13.7% to 16.7%. This increase is driven by decreasing cost of goods sold, decreasing selling general and administrative costs, offset slightly by increased spending on research and development.

Depreciation and Amortization

Our depreciation and amortization schedule is a simple calculation based on an effective useful life of property, plant, and equipment. The current effective useful life is approximately 6.8yrs, and we've assumed that it doesn't change in the future.

Capital Expenditures

The firm guided that it intends to spend USD$200-300M (funded through cash flow) on large projects (plant upgrades) over the next 5-7 years. This is in excess of the USD$8-$12M annually ITP currently spends on maintenance capital expenditures. Additionally, we've modelled in one USD$60M acquisition per year over the forecast horizon.

Net Working Capital (NWC)

We've kept our assumptions of NWC very conservative. In short, we've assumed that current operating assets stay at a near-constant rate of approximately 26.5% of sales. Similarly, current operating liabilities stay at a near-constant rate of approximately 14.0% of cost of goods sold. Management has guided that they expect to make improvements in NWC, but we feel this is unlikely given the aggressive acquisition plan, and think that holding these rates constant is a fair estimate.

Effective Tax Rate

For sake of simplicity, we've assumed a normalized tax rate of 30% into the future. We recognize this doesn't fully reflect the intricacies of ITP's taxation agreements, but we feel that additional investigation is unlikely to result in material changes to valuation.

Weighted Average Cost of Capital (WACC)

The assumptions required to calculate WACC are amassed from a variety of sources. First, we're using the market value of equity and book value of debt (as a proxy for market value) to calculate weights. Next, we use a 4.0% pre-tax cost of debt which is based on a sampling of various maturities of debt issued by peers, as ITP doesn't have any publicly traded debt. NYU Stern Professor Aswath Damodaran has supplied an unlevered Containers and Packaging Beta of 1.3, which we've levered up to 1.4 to reflect ITP's financial risk. Prof. Aswath Damodaran has also supplied a market equity risk premium of 4.5%. Next, we've assumed a risk free rate of 2.4% based on the current YTM of 7-year U.S. treasury bills. Lastly, we're using a normalized tax rate of 30%. Based on these inputs, we've calculated WACC to be approximately 7.8%.

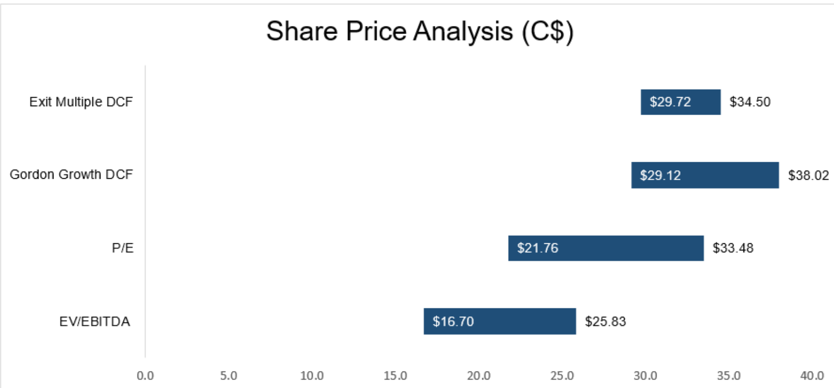
Terminal Multiple & Growth Rate

We've assumed a terminal growth rate of 2% which approximately reflects the rate of economic growth in western economies such as Canada and the United States. In addition to a terminal growth rate, we've assumed a 9x EV/EBITDA exit multiple which reflects recent transaction multiples in the sector.

Discounted Cash Flow Valuation Summary

Using the relatively conservative assumptions above, we find that the DCF implies a share price of approximately CAD$33 using the Gordon Growth approach and approximately CAD$32 using the exit multiple approach.

Recommendation



Source of Figure 8: WPRA Estimates

ITP is shifting sights from repairing its balance sheet and improving its product mix to reinvesting in its operations which will provide further support for margins and earnings. Management's goal to grow revenue to USD$1.5B and EBITDA to USD$225M in the next 5-7 years is likely a little too enthusiastic, but based on our analysis we think numbers relatively close should be achievable. ITP currently trades at CAD$24.77, but we believe a fair price for the stock is CAD$30. This CAD$30 share price is on the conservative end of our DCF spectrum, but admittedly ignores our comparable company valuation due to its irrelevance. This approximate 20% discrepancy between fair value and market price represents both a large upside and a large margin of safety, if our assumptions are incorrect. We recommend a buy on this stock.

We believe the 20% gap between current share price and our target price represents the market's unwillingness to price in ITP's acquisition fueled growth strategy. If we remove all acquisition based growth from our DCF model, we find that the DCF estimates fair share value at approximately CAD$21, only 15% below current share price. We draw a similar line of thought when evaluating the output of the comparable company analysis, as this method of valuation doesn't account for acquisition-based upside and values the shares in the low-to-mid twenties. We expect that as ITP's management proves their acquisition prowess to the market, this gap will all but disappear.

Risk Factors

Raw material price fluctuations and availability

Within the tapes segment, ITP is a largely a price taker (following 3M). As a result, raw material cost increases in the past have had a negative impact on its financial results. If the company raises prices to offset an increase in the price of raw materials, it could lose market share; on the other hand, if it does not increase prices, its margins could decline.

Competitive Environment

Although ITP is the second largest tape manufacturer in North America, it is much smaller in size than 3M and tends to be a price taker. Material price reductions by 3M could force ITP to reduce the pricing on certain products, squeezing its margins. Moreover, ITP films business is relatively commodity like. There is very little product differentiation within the industry and competitors compete primarily on cost. Competitors within either product category may reduce pricing to a level at which ITP cannot remain competitive, affecting the profitability and sustainability of the company. In addition, new products may come to market that erode ITP market share in key areas.

Acquisition integration risks

As part of its growth strategy, we expect ITP to pursue strategic acquisition opportunities. An acquisition strategy can expose the company to integration risks (depending on the size of the acquisition), which may have a negative effect on the operations and the financial condition (achieving synergies) of the company.

Dependence on customers

Although ITP has strong relationships with its diverse base of customers, the loss of any significant customer or a decrease in sales to any one customer could have a material adverse effect on the operations and financial condition of the company.

Appendix 1: Pro Forma Income Statement

Income Statement ($M USD)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	**784.4**	**781.5**	**812.7**	**781.9**	**804.6**	**844.8**	**910.4**	**998.5**	**1073.5**	**1142.3**	**1204.2**	**1261.2**
Cost of Goods Sold	615.3	595.3	622.9	583.0	589.0	616.7	655.5	709.0	751.4	799.6	842.9	882.9
Gross Profit	**169.1**	**186.2**	**189.8**	**198.9**	**215.6**	**228.1**	**254.9**	**289.6**	**322.0**	**342.7**	**361.2**	**378.4**
SG&A	77.3	77.7	79.8	80.8	95.1	101.4	109.2	114.8	123.5	131.4	138.5	145.0
R&D	6.2	6.9	7.9	9.5	10.2	11.0	12.7	15.0	17.2	19.4	21.7	22.7
EBITDA	**85.6**	**101.6**	**102.2**	**108.6**	**110.3**	**115.7**	**132.9**	**159.8**	**181.4**	**191.9**	**201.1**	**210.6**
D&A	30.4	27.7	26.2	30.9	30.3	32.3	41.2	49.9	58.3	66.8	75.1	74.6
SBC	1.8	4.9	6.2	3.2	8.6	8.0	8.0	8.0	8.0	8.0	8.0	8.0
EBIT	**53.4**	**68.9**	**69.8**	**74.5**	**71.4**	**75.5**	**83.7**	**101.9**	**115.1**	**117.2**	**118.0**	**128.0**
Interest expense	13.2	5.7	4.6	3.6	4.4	5.0	6.5	8.0	9.5	11.0	11.0	11.0
Other items	19.6	31.7	6.5	3.3	10.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income Before Income Tax	**20.6**	**31.6**	**58.7**	**67.7**	**56.3**	**70.5**	**77.2**	**93.9**	**105.6**	**106.1**	**107.0**	**117.0**
Income Tax	0.2	-35.8	22.9	11.0	14.9	21.1	23.2	28.2	31.7	31.8	32.1	35.1
Net Income	**20.4**	**67.4**	**35.8**	**56.7**	**41.3**	**49.3**	**54.0**	**65.7**	**73.9**	**74.3**	**74.9**	**81.9**
Shares Outstanding, Basic	59.1	60.4	60.7	59.7	58.7	58.7	58.7	58.7	58.7	58.7	58.7	58.7
Shares Outstanding, Diluted	60.6	61.6	62.1	61.1	60.9	60.9	60.9	60.9	60.9	60.9	60.9	60.9
Earnings Per Share, Basic	$ 0.35	$ 1.12	$ 0.59	$ 0.95	$ 0.70	$ 0.84	$ 0.92	$ 1.12	$ 1.26	$ 1.27	$ 1.28	$ 1.40
Earnings Per Share, Diluted	$ 0.34	$ 1.09	$ 0.58	$ 0.93	$ 0.68	$ 0.81	$ 0.89	$ 1.08	$ 1.21	$ 1.22	$ 1.23	$ 1.35

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Appendix 2: Pro Forma Cash Flow Statement

Cash Flow Statement ($M USD)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Income	20.4	67.4	35.8	56.7	41.3	49.3	54.0	65.7	73.9	74.3	74.9	81.9
Depreciation and Amortization	30.4	27.7	26.2	30.9	30.3	32.3	41.2	49.9	58.3	66.8	75.1	74.6
Changes in Current Assets	3.7	-9.2	-10.4	3.2	-0.6	-19.8	-20.5	-12.4	-19.9	-18.2	-16.4	-15.1
Changes in Current Liabilties	2.1	0.6	2.5	1.1	-12.5	7.7	3.1	5.8	5.9	6.7	6.1	5.6
Other Adjustments	28.0	-4.3	32.7	10.4	18.1	-2.4	-0.6	-5.1	-3.2	-2.4	-2.1	-2.0
Cash From Operations	84.5	82.2	86.9	102.3	76.6	67.1	77.3	103.9	115.1	127.2	137.5	145.0
Cash Used in Investing Activities	-21.1	-44.9	-36.8	-59.2	-89.2	-95.1	-99.3	-107.5	-115.5	-123.6	-71.5	-71.0
Cash Provided By (Used In) Financing Activities	-62.0	-40.5	-43.7	-31.2	15.2	26.0	23.6	22.4	21.3	-39.9	-41.1	-42.3
Foreign Exchange Impact	0.2	-0.2	-0.5	-2.5	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Beginning Cash Balance	4.3	5.9	2.5	8.3	17.6	19.6	17.6	19.2	38.0	58.8	22.5	47.5
Net Change in Cash	1.5	-3.4	5.8	9.3	1.9	-2.0	1.6	18.8	20.8	-36.3	24.9	31.8
Ending Cash Balance	5.9	2.5	8.3	17.6	19.6	17.6	19.2	38.0	58.8	22.5	47.5	79.2

Appendix 3: Pro Forma Balance Sheet

Balance Sheet ($M USD)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
ASSETS												
Cash and Cash Equivalents	5.9	2.5	8.3	17.6	19.6	17.6	19.2	38.0	58.8	22.5	47.5	79.2
Other Current Assets	193.1	199.5	205.4	203.0	211.9	231.7	252.2	264.6	284.5	302.7	319.1	334.2
Total Current Assets	**199.0**	**202.0**	**213.7**	**220.6**	**231.5**	**249.3**	**271.4**	**302.6**	**343.3**	**325.3**	**366.6**	**413.5**
Property, Plant and Equipment	185.6	181.6	188.1	198.1	218.3	281.1	339.1	396.7	453.9	510.7	507.1	503.6
Other Non-Current Assets	41.6	81.6	64.8	61.1	61.7	67.5	71.0	79.9	85.9	91.4	96.3	100.9
Total Non-Current Assets	**227.2**	**263.2**	**253.0**	**266.6**	**325.0**	**393.6**	**455.2**	**521.7**	**584.8**	**647.2**	**648.5**	**649.5**
Total Assets	**426.2**	**465.2**	**466.7**	**487.3**	**556.5**	**642.9**	**726.5**	**824.3**	**928.1**	**972.4**	**1015.1**	**1062.9**
LIABILITIES												
Total Current Liabilities	**87.2**	**87.0**	**85.5**	**90.1**	**82.6**	**90.3**	**93.4**	**99.3**	**105.2**	**111.9**	**118.0**	**123.6**
Long-term debt	141.6	121.1	117.6	147.1	200.2	260.2	320.2	380.2	440.2	440.2	440.2	440.2
Other Non-Current Liabilities	**43.5**	**26.7**	**36.1**	**33.3**	**36.0**	**39.4**	**42.3**	**46.1**	**48.8**	**52.0**	**54.8**	**57.4**
Total Non-Current Liabilities	**185.1**	**147.8**	**153.7**	**180.4**	**236.2**	**299.6**	**362.5**	**426.2**	**489.0**	**492.1**	**494.9**	**497.5**
Total Liabilities	**272.3**	**234.8**	**239.2**	**270.5**	**318.8**	**389.9**	**455.9**	**525.5**	**594.2**	**604.1**	**613.0**	**621.1**
SHAREHOLDER'S EQUITY												
Total Shareholder's Equity	**153.8**	**230.4**	**227.5**	**216.7**	**237.7**	**253.0**	**270.7**	**298.8**	**334.0**	**368.4**	**402.2**	**441.8**
Total Liabilities & SE	**426.2**	**465.2**	**466.7**	**487.3**	**556.6**	**642.9**	**726.6**	**824.3**	**928.2**	**972.5**	**1015.1**	**1063.0**

Appendix 4: Discounted Cash Flow Analysis

DCF Analysis ($M USD)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Free Cash Flow Analysis												
EBIT	53.4	68.9	69.8	74.5	71.4	75.5	83.7	101.9	115.1	117.2	118.0	128.0
Tax Rate	1.0%	-113.5%	39.0%	16.2%	26.5%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
D&A	30.4	27.7	26.2	30.9	30.3	32.3	41.2	49.9	58.3	66.8	75.1	74.6
Change in NWC	-1.6	9.8	12.9	-2.1	-12.0	27.5	23.6	18.3	25.8	25.0	22.5	20.7
Capital Expenditures	-21.6	-46.8	-40.6	-34.3	-45.5	-35.1	-39.3	-47.5	-55.5	-63.6	-71.5	-71.0
Unlevered Free Cash Flow	**60.1**	**137.9**	**41.0**	**56.9**	**25.2**	**77.5**	**84.1**	**92.0**	**109.2**	**110.2**	**108.6**	**113.9**
Discounted Unlevered Free Cash Flow					**24.7**	**70.5**	**71.0**	**72.0**	**79.2**	**74.1**	**69.1**	**65.9**

WACC Calculation

MV Equity	1074.44
BV Debt	200.16
Debt to Total Capitalization	15.7%
Cost of Debt	4.0%
Tax Rate	30.0%
After Tax Cost of Debt	2.8%
Unlevered Industy Beta	1.3
Levered Industry Beta	1.4
Equity Risk Premium	4.5%
Risk Free Rate	2.4%
Cost of Equity	8.8%
WACC	**7.8%**

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Appendix 5: Discounted Cash Flow Analysis Sensitivity Table

Share Price Calculation: Gordon Growth

Free Cash Flow Sum		526.6
Terminal Value		1173.0
Enterprise Value		**1699.6**
Less: Current Debt		200.2
Add: Current Cash		5.6
Equity		**1505.1**
Shares Outstanding		60.8
USD/CAD Exchange		1.35
Implied Share Value	**C$**	**33.40**

Growth Rate	WACC → $ 33.40	6.40%	6.90%	7.40%	7.90%	8.40%	8.90%	9.40%
	1.25%	$ 40.22	$ 36.19	$ 32.81	**$ 29.95**	$ 27.49	$ 25.35	$ 23.47
	1.50%	$ 41.94	$ 37.57	$ 33.95	**$ 30.89**	$ 28.28	$ 26.01	$ 24.04
	1.75%	$ 43.85	$ 39.10	$ 35.18	**$ 31.91**	$ 29.12	$ 26.73	$ 24.65
	2.00%	**$ 45.98**	**$ 40.78**	**$ 36.53**	**$ 33.01**	**$ 30.04**	**$ 27.50**	**$ 25.30**
	2.25%	$ 48.37	$ 42.63	$ 38.02	**$ 34.21**	$ 31.03	$ 28.32	$ 26.00
	2.50%	$ 51.06	$ 44.70	$ 39.65	**$ 35.53**	$ 32.10	$ 29.22	$ 26.75
	2.75%	$ 54.12	$ 47.02	$ 41.45	**$ 36.97**	$ 33.27	$ 30.18	$ 27.55

Share Price Calculation: Exit Multiple

Free Cash Flow Sum		526.6
Terminal Value		1117.6
Enterprise Value		**1644.2**
Less: Current Debt		200.2
Add: Current Cash		5.6
Equity		**1449.6**
Shares Outstanding		60.8
USD/CAD Exchange		1.35
Implied Share Value	**C$**	**32.17**

Multiple	WACC → $ 32.17	6.40%	6.90%	7.40%	7.90%	8.40%	8.90%	9.40%
	7.50	$ 30.73	$ 29.76	$ 28.83	**$ 27.93**	$ 27.06	$ 26.22	$ 25.41
	8.00	$ 32.24	$ 31.23	$ 30.25	**$ 29.30**	$ 28.39	$ 27.51	$ 26.66
	8.50	$ 33.75	$ 32.69	$ 31.67	**$ 30.68**	$ 29.72	$ 28.80	$ 27.90
	9.00	**$ 35.27**	**$ 34.16**	**$ 33.08**	**$ 32.05**	**$ 31.05**	**$ 30.08**	**$ 29.15**
	9.50	$ 36.78	$ 35.62	$ 34.50	**$ 33.42**	$ 32.38	$ 31.37	$ 30.40
	10.00	$ 38.30	$ 37.09	$ 35.92	**$ 34.79**	$ 33.71	$ 32.66	$ 31.64
	10.50	$ 39.81	$ 38.55	$ 37.34	**$ 36.17**	$ 35.03	$ 33.94	$ 32.89

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Appendix 6: Comparable Company Valuation

Comparables ($M USD, excluding per-share values and unless otherwise noted)

Company	EV	TTM EBITDA	Share Price	TTM EPS	EV/EBITDA	P/E
3M Company (MMM-N)	$117,246	$8,515	$178.92	$7.85	**13.8x**	**22.8x**
AptarGroup Inc. (ATR-N)	$5,101	$468	$74.17	$3.08	**10.9x**	**24.1x**
Avery Dennison Corp. (AVY-N)	$7,300	$673	$71.69	$3.37	**10.8x**	**21.3x**
Bemis Company Inc. (BMS-N)	$6,026	$562	$48.83	$2.34	**10.7x**	**20.9x**
Berry Plastics Inc. (BERY-N)	$11,791	$1,032	$50.25	$1.68	**11.4x**	**29.9x**
CCL Industries Inc. (CCL.B-T)	C$10,497	C$684	C$267.50	C$9.15	**15.3x**	**29.2x**
Greif Inc. (GEF-N)	$3,966	$324	$52.98	$1.65	**12.2x**	**32.1x**
Sealed Air Corp. (SEE-N)	$13,277	$920	$46.43	$1.74	**14.4x**	**26.7x**
Sonoco Products Co. (SON-N)	$6,321	$570	$53.81	$2.11	**11.1x**	**25.5x**
Winpak Ltd. (WPK-T)	C$2,709	C$192	C$46.39	C$1.60	**14.1x**	**29.0x**
Intertape Polymer Group Inc. (ITP-T)	$1,269	$91	$18.77	$0.79	**13.9x**	**23.8x**

EV/EBITDA	HIGH	AVERAGE	LOW		
	15.3 x	12.5 x	10.7 x	Est. Share Value	C$20.19

P/E	HIGH	AVERAGE	LOW		
	32.1 x	26.1 x	20.9 x	Est. Share Value	C$27.26

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