CHEMTRADE LOGISTICS INCOME FUND

Q3 2019 Results Conference Call

Mark Davis

Good morning, ladies and gentlemen. Thank you for joining us for our conference call and webcast today.

As usual, joining me is Rohit Bhardwaj, our Chief Financial Officer.

Before I commence the review, I would remind you that our presentation contains certain forward-looking statements that are based on current expectations, and are subject to a number of uncertainties and risks, and actual results may differ materially. Further information identifying risks, uncertainties and assumptions, and additional information on certain non-IFRS measures referred to in this call can be found in the disclosure documents filed by Chemtrade with the securities regulatory authorities, available at sedar.com.

One of the non-IFRS measures that we will refer to in this call is Adjusted EBITDA, which is EBITDA modified to exclude only non-cash items such as unrealized foreign exchange gains and losses. For simplicity, we will just refer to it as EBITDA as opposed to Adjusted EBITDA. Both these terms are fully defined in our MD&A.

Generally, we were pleased with our third quarter results. For the most part our results reflect a continuation of the operating conditions we experienced in the second quarter and are in line with the guidance provided. While our chlor-alkali and certain specialty chemical businesses continued to be affected by the factors we described last quarter, for the most part we believe these issues are transitory. I will have more to say about that shortly.

In general, all our plants operated well. We are continuing to see the benefits of the initiatives we took last year to strengthen our operations and adjust to changing market conditions.

This is most evident in our Sulphur Products and Performance Chemicals (SPPC) segment, which posted another quarter of strong results. As you know, last year we made substantial adjustments to our operations and supply chain to address significant changes in the merchant sulphuric acid market, particularly a structural change to address lower supply from our largest by-product supplier, Vale.

We now have more certainty about the quantity of material we obtain from Vale, and this has allowed us to avoid the high alternate sourcing, freight costs and excess rail cars that we incurred during Vale's transition. Additionally, strong selling prices for sulphuric acid are offsetting the lower volumes available to us from Vale.

In our Water Solutions and Specialty Chemicals (WSSC) segment, the story is much the same as last quarter. Contract renewals for water treatment products are being made at higher prices, more than offsetting raw material cost increases.

As noted on our recent calls, there has been market pressure on some of our specialty chemicals, for example, potassium chloride and phosphorus pentasulfide. We believe these issues are temporary, and the long-term fundamentals for most of our products are robust.

Finally, our Electrochemicals, or EC, segment continued to maintain high operating rates. However, North East Asia caustic soda prices, which affect the pricing for our product, have not recovered at the rate the experts had predicted and we had hoped for. Having said that, there has been some recent improvement in the North East Asia spot index, and as we said on the last call, the long-term outlook remains positive. I will have a little more to say on that in my closing remarks.

Demand for hydrochloric acid (HCl) from the fracking industry continued to be weak. However, the steps we have taken to diversify our customer base to include industrial end use customers with more stable demand is working for us, albeit at lower margins than the more lucrative fracking industry.

So, in general, our businesses have performed well in the first three quarters of the year – especially SPPC and our water chemicals business that have gained strength throughout the year. It's almost a year now since caustic prices started weakening, but despite that, the long-term outlook is for higher prices, so we continue to be confident that results for EC will improve over time.

Rohit will now provide you with some additional details on the third quarter results before I provide some further information on our outlook.

Rohit Bhardwaj

Thank you, Mark. Good morning.

As Mark indicated, our plants overall operated well in the third quarter of 2019, and results also reflect higher sulphuric acid prices and improved pricing for water products that more than offset higher input costs.

Before I review the financial results for the third quarter, there are a couple of items to note.

The application of IFRS 16 on leases at January 1, 2019 means that Chemtrade now recognizes depreciation and interest expense, instead of operating lease expense, for leases that were previously classified as operating leases. This results in an increase in EBITDA, but it does not affect distributable cash. Also, comparative information is not restated.

The third quarter last year included a $35.0 million litigation reserve that negatively affected both EBITDA and Distributable Cash. I will exclude this item in my comments this morning to better compare the actual operating performance of our businesses.

Revenue for the third quarter of 2019 was $395.7 million, a decrease of $22.5 million from 2018. The decrease was primarily due to lower prices for caustic soda and hydrochloric acid in the EC segment that more than offset higher sales in Water products.

For the three months ended September 30, 2019, Distributable Cash after maintenance capital expenditures was $37.1 million, or 40-cents per unit compared with $54.0 million or 58-cents per unit in 2018.

Aggregate EBITDA for the third quarter of 2019 was $90.0 million compared with $88.8 million in the third quarter of 2018. The increase in EBITDA is due to better results in the SPPC segment. The adoption of IFRS 16 had a positive impact of $14.0 million on this year's results. While SPPC posted higher year-over-year results, this was more than offset by lower results in EC. Excluding the effects of IFRS 16, EBITDA for the third quarter was lower than 2018 by $12.7 million.

Turning to segmented results for the quarter, SPPC generated revenue of $127.8 million compared with $129.6 million in 2018. EBITDA for the quarter was $43.7 million, which was $21.5 million higher than 2018. Although sales volumes were generally lower than last year, higher selling prices for merchant sulphuric acid combined with better operations resulted in significantly higher margins. While IFRS 16 contributed $5.3 million to the improvement, the majority of the increased EBITDA came from improvements in the business itself.

Our WSSC segment reported third quarter revenue of $122.4 million compared with $116.6 million in 2018. EBITDA was $24.3 million, including the positive IFRS 16 impact of $1.1 million, compared with $24.1 million generated in 2018, which included a $2.2 million insurance recovery relating to an issue that occurred in 2016.

As Mark said, selling prices for water products are more than offsetting higher raw material costs. However, ongoing market weakness for some specialty chemicals more than offset the improved conditions for water products.

Our EC segment reported revenue of $145.4 million for the third quarter of 2019, which was $26.6 million lower than the same period of 2018.

Although volumes of caustic soda were essentially level with last year, continued weakness in selling price resulted in lower revenue. During the third quarter of 2019, relative to the third quarter of 2018, caustic soda selling prices were 21% lower and HCl netbacks (i.e., selling price less freight) were 47% lower. Chlorate volumes were lower than last year due to reduced demand from pulp mills.

From an EBITDA perspective, excluding the $7.3 million benefit from IFRS 16, EBITDA for the third quarter of 2019 was $21.6 million lower than the same period of 2018. This was primarily due to lower selling prices for both caustic soda and HCl.

Maintenance capital expenditures in the third quarter were $19.7 million. We expect maintenance capex in 2019 to range between $80.0 million and $90.0 million.

Excluding unrealized foreign exchange gains, corporate costs during the third quarter of 2019 were $20.8 million, including a positive IFRS 16 impact of $0.3 million, compared with $14.7 million in the third quarter of 2018, excluding the litigation reserve in 2018. The increase is due primarily to higher legal costs in 2019 and higher compensation accruals.

We maintain ample liquidity with US$202.3 million undrawn on our US$850.0 million credit facility and are in compliance with all our bank covenants. In October, we amended certain terms of our senior credit facility as well as extending the term. The facility now matures in October 2024.

On October 1, we completed the issuance of $100 million principal amount of 6.50% convertible unsecured subordinated debentures. The net proceeds of the offering were used to pay down senior debt.

I’ll now hand the call back to Mark.

Mark Davis

Let me start by saying we are confirming the guidance we gave in May, although, as indicated in August, we now expect to be at the bottom end of that range. For the year-to-date, excluding the litigation reserve, we have generated $265.2 million of EBITDA and $120.6 million of distributable cash. Due to lower caustic pricing, the slight seasonal weakness of some of our businesses and our usual capex profile, we expect to generate the lowest EBITDA and distributable cash of the year in Q4. All of our key assumptions are updated in our MD&A, but the key updated assumption is caustic pricing. And since caustic pricing is such a big driver for us, we want to provide additional colour.

Generally, movements in the NE Asia caustic price index are reflected in price movements seen in our Western Canadian markets. In May, our assumption was that the NE Asia caustic index, would average US$55 per tonne higher than November 2018. The November price set the direction for our realized price for Q1 2019. Since then, decreases in the index led to a decrease in our realized pricing. We reflected this in our August guidance, when we decreased our assumption for the NE Asia spot price index by US$30 per tonne and today further decreased that assumption by US$10 per tonne.

We are not yet ready to provide guidance for 2020, but will do so in February, about 3 months earlier than our guidance was given in 2019. However, we do wish to provide some more information on potential caustic pricing, as this is by far our key variable.

Recall also, that our thesis was, and continues to be, that caustic demand will continue to grow while supply will remain comparatively static. This should lead to increasing caustic pricing for several years. This is the thesis that is accepted by all the market experts. What appears to be slowing down this anticipated price increase is the effect of the US/China trade battle and its unpredictability. Generally speaking, it appears that these tariffs have, so far, reduced caustic demand, while Asian chlorine demand has not yet been affected. If the tariffs continue, the question is: Which chemical - caustic or chlorine - is more impacted by an economic slowdown in the Chinese economy? To the extent that chlorine demand slows down in China, caustic price should increase. Obviously, the continuation of the tariffs, the effect on the Chinese economy, and a resolution of these issues is difficult to predict.

While the market experts do not forecast spot pricing, but they do forecast Taiwan contract pricing. This pricing is indicative of expectations for NE Asia spot pricing. Until very recently, IHS, one of the market experts, was predicting that the Taiwan contract price for 2020 should average US$37 per tonne higher in 2020 than in 2019. Their latest revision is that 2020 Taiwan contract pricing should be essentially the same as 2019. If this is also true for NE Asia spot pricing, then pricing and profitability for our caustic in 2020 should be close to 2019. However, prediction remains difficult since this model uses average annual pricing whereas our prices are affected by quarterly variations.

Some data before I attempt to tie it all together. Recall that since the NE Asia index is thinly traded, it can be quite volatile.

Index pricing appeared to have bottomed out in August of 2019 at US$285 per tonne and moved up by US$20 per tonne in October 2019. We believe this pricing will continue to increase.

Finally, despite the recent weakness in North East Asia spot pricing, we remain bullish on caustic pricing. For example, the index was US$245 per tonne higher as recently as 2018 before the US/China dispute really had an effect. However, if caustic pricing during 2020 stays at last month's levels, we could face price headwinds of about US$30 per tonne relative to the index price we used for our 2019 guidance.

We think that current pricing is an aberration driven by the US/China trade wars, but longer-term underlying supply/demand characteristics remain positive. While we are experiencing some near-term pain, we are still quite bullish on the future for caustic pricing in our RC business.

Thank you for your attention. Rohit and I would now be pleased to answer questions.

QUESTION AND ANSWER SESSION

Operator

Your first question today comes from the line of Jacob Bout of CIBC World Markets. Your line is open.

Jacob Bout, CIBC World Markets

Good morning. The industrial demand for hydrochloric, maybe just talk a bit about your split now for your chlorine; for raw chlorine going to industrial and then to the fracking.

Rohit Bhardwaj, Vice-President, Finance & Chief Financial Officer

So, Jacob, we are doing more than half of our HCl now in the general industrial space, but we maintain some flexibility. If fracking were to come back, it would actually displace some chlorine as opposed to disrupt the stable industrial market we are trying to serve, so that's where we are right now converting about 37% of the chlorine molecule into HCl, so that gives us ample flexibility should fracking come back. So, hopefully, that answers your question.

Jacob Bout

And then how is pricing structured? Is it like a cost plus? Or how should we think about that?

Rohit Bhardwaj

No, we don't do cost plus. It's based on market dynamics. Now, the other thing is, as we said, those markets tend to be further away from our plants, so even though pricing may be reasonably strong, there's a high freight factor to get the product to those markets.

Jacob Bout

Okay. And then the margin improvement that we saw in WSSC, you talk about the dynamic between pricing and raw material costs, what does that dynamic look like? What does the dynamic look like going out for the next 12 to 18 months? Do you expect pricing continue to increase?

Rohit Bhardwaj

So, raw materials have started to stabilize and, in some cases, are actually dropping now, so the key to that business is going to be to, I'd say, maintain the pricing that we have while the raw materials go down. So, I don't think there's a lot more — there's some room in pricing as these contracts, you know, we go through a whole year of renewals of contracts. But actually, the bigger opportunity here is to maintain our pricing environment while raw material costs are going down.

Mark Davis, President & Chief Executive Officer

And to be clear, our margins are actually returning to what we think normal should be and are not there yet. So, we don't anticipate giving any on pricing as raw materials go down. We expect to maintain it and hopefully continue to increase it because it's our view that we have not been receiving a proper return on that business.

Jacob Bout

Do you get back to historic margins in the next 12 to 18 months?

Mark Davis

We're going to move in that direction.

Jacob Bout

Okay. And then maybe just while we're on this segment, any update on the sale of the KCI in the vaccine businesses?

Mark Davis

As we said, we really won't comment on that until we have something to comment on.

Jacob Bout, CIBC World Markets

Okay. I'll leave it there. Thank you.

Operator

Your next question comes from the line of David Newman of Desjardins. Your line is open

David Newman, Desjardins Capital Markets

Good morning, gentlemen.

Mark Davis

Hi, David.

David Newman

Some could say Vale almost did you a favour almost in tightening up the markets in the smaller catchment area and the improved pricing overall, but if you look at the sulphur pricing, it does look like it's begun to roll over to a certain degree on merchant acid. So, I guess, how long do you think you might be able to sustain the current run rate of, obviously, good results here?

Mark Davis

We don't see that weakening for the foreseeable future. Right? Although sulphur price is tending down right now, recall that a bunch of our product is not based on burning sulphur and a number of our contracts in the areas where sulphur is our raw material you have pricing linked to changes in sulphur pricing, so although pricing might come down, margins shouldn't.

David Newman

Okay. And in the catchment area, I think, Mark, you said some of the contribution margin, the further out you go geographically, was kind of marginal. So, do you think in the catchment areas that you're in now that you're servicing that you have a stronger hold in those markets or a better read on those markets versus, I guess, when you had more volume?

Mark Davis

Yes, I certainly think so. Again, generically, years ago when Vale said they were going to reduce, we always said that the last 25% of what we take from Vale is essentially no margin. It's not quite that way, but it's close enough. So, if they had reduced by 25%, we probably wouldn't be talking about this. We felt if they reduced more, which they did, is what's the knock-on effect on the market, and obviously the knock-on effect has been higher pricing and, therefore, as you say, the customers are more geographically proximate and they're logically served by the product coming out of Vale. So, we probably do have a better hold on those guys.

David Newman

Okay. And then I noticed you're re-rationalizing some of your regen capacity. You know, where, why, and I guess you're taking a bit of a write-off on it, could there be recoveries? Or I assume it's hard because, obviously, sole use property sort of thing. And any EBITDA that is attached to what you're shutting down.

Mark Davis

Yes. So, as a general statement, although regen could move around, it's primarily a regional market. And if you look at the US regions, the only place that there's really excess regen capacity was in the US Gulf. And the plant that we stopped producing regen at was in Louisiana and we have sufficient capacity at our Beaumont facility to assume that volume. So, we will not start regen again up at Shreveport, although we do continue to make merchant sulphuric acid there and look for other opportunities on that plant. There is no loss of EBITDA from actually stopping regen. We believe in time, when we finish rationalizing everything, there should be a slight uptick. And that plant is, as you kind of insinuated, it's sole purpose. So, although we can make regen and merchant there, we're currently making merchant there. And we are taking a look actually on what else we might be able to do with that site.

Rohit Bhardwaj

In terms of the write-down, those are specific assets that we used to process regen, so since they are not being used we took a write-down. So, there's no impairment in the value of the business, it's just specific assets that will no longer be used.

David Newman

Excellent. And, as you look out to next year, guys, you had a pretty benign year, I guess, in terms of turnarounds. How is 2020 stacking up on the turnaround front? I guess Scott's going around checking all the plants out right now as we speak, but maybe just some thoughts on what the year shaping out to be.

Mark Davis

Yeah, he has his wrench in his pocket as he's going around. There are another couple of turnarounds next year that are primarily in the SPPC segment that will, um, let me put it this way actually, the SPPC segment could do even better next year but it actually has a couple of significant turnarounds.

Rohit Bhardwaj

If you remember, every five years refineries take a major cracker outage and so we've got one of them slotted for next year and, unfortunately I guess, it's in a market where there's a good margin. So, we will have that big turnaround.

And I guess also the other one is in the EC segment. We do a turnaround in the North Vancouver facility every two years and so that'll be due in 2020. But, again, for EC in particular, if we have enough time to plan and we go in with reasonable inventories, the hurt is not as much as unexpected outages. The regen maybe is a different story because there's not much we can do. This is on the West Coast and there's really not much of a network there. It's a standalone plant.

David Newman

And I assume the SPPC one is probably going to be in the front end of the year?

Rohit Bhardwaj

No, that's actually in Q4, although there is, we are doing another one in Q1 as well, but the bigger one will be Q4.

David Newman

Okay. And the EC for North Van?

Rohit Bhardwaj

The EC is, yeah, I think it's in Q2.

David Newman

Q2. Okay, very good. Last one for me, guys, and I'll hand it over to someone else. Suzano has right-sized their pulp inventories and industry capacity has been laid up overall on sodium chlorate.

What is your read on the outlook for the pulp market? Does it look like it's going to be stabilized here and it might actually pick up into 2020? Any thoughts on sodium chlorate?

Mark Davis

I think your comments or your prelude to your question is right. I think it looks to us as though the pulp markets have stabilized and should continue to run in the normal course going forward.

Suzano is obviously of great interest, not just because of their market size but because they take our product from our Brazil facility, so if they return to their traditional operating rates, our Brazil facility continues to make its normal course EBITDA. If Suzano continues to, I guess, what they call it is price shape the market, if they throttle back their Aracruz plant, you know, that could have a negative effect on us. But, as you started your question, it appears though that that market's stabilized now.

Rohit Bhardwaj

Yeah, I mean the pulp market has stabilized and inventories are finally starting to come down, but inventories globally still are quite a bit higher than what they should be, but at least they are now starting to come down.

David Newman

Excellent. Thanks, guys, and great to see you gaining some good traction here. Thanks a lot.

Mark Davis

Thanks very much.

Operator

Again, ladies and gentlemen, if you would like to ask a question, please press star then one on your telephone keypad. Your next question comes from the line of Paul Bilenki of TD Securities. Your line is open.

Paul Bilenki, TD Securities

Good morning, guys. So, in your prepared remarks you gave some really good colour on caustic and pricing. I was hoping you could provide some colour maybe on your outlook for chlorine and hydrochloric, maybe relative to Q3, what you saw there and just for Q4 and maybe into early 2020.

Rohit Bhardwaj

So, on Q4 we, so in hydrochloric, which is more—chlorine tends to not be as much of a driver, so if you look at our HCl, we reduced our outlook and our guidance when we gave our assumption. We took it down by $5 a tonne for the year, which, if you do the, obviously all (inaudible) is Q4, so if you take it linearly that's $20 a tonne for Q4 if the assumption is lower. So, if you look at our HCl, for next year we are not counting on a recovery in the HCl markets. If fracking does surprise us to the upside, then there's potential upside, but we did start to see HCl pricing come down during the year. So, when you look at 2020 versus 2019, we may be, you know, if things remain where they are, we may end up slightly lower because HCl pricing was still a little bit higher in the first quarter but most of the year it was quite low. So, we are not really counting on much recovery in the HCl market.

Paul Bilenki, TD Securities

Okay. That's very good colour. Thank you. And then, I guess, on chlorate, as you move towards renewing contracts early next year, what's your outlook on that side of things? Do you expect to put through price increases?

Mark Davis

Most of our contracts have been renewed, right? Most of the chlorate industry renews a contract before the end of the calendar year end, not year end, and we've seen pricing primarily stable. As similar, I guess, to last year, our pricing has been able to certainly offset any electrical power increases. So, it is relatively stable pricing we see going forward, again, which is in an industry operating at the utilization rate that it is, in time, we think supply-demand is going to work in our favour.

Paul Bilenki

Okay, thank you. That's very helpful. I'll turn it over there.

Operator

Your next question comes from the line of Joel Jackson of BMO Capital Markets. Your line is open.

Joel Jackson, BMO Capital Markets

Hi. Good morning. I have a shorter-term question and a longer term. So, Rohit, Mark, what's your corporate cost trend next year? You've had a lot of one-offs this year. What should it look like next year?

Rohit Bhardwaj

Typically, we say between $65 million and $70 million is a reasonable run rate.

Joel Jackson, BMO Capital Markets

And you don't have any one-offs or any more legal we should worry about—?

Rohit Bhardwaj

We're not expecting to, you know, in terms of cash outflow, we basically have, at the end of Q3, have paid out all the settled claims. We have those ex-employee derivative actions outstanding, but for that, everything has been paid out and so we're not expecting any unusual legal costs.

Joel Jackson

So, about a $10 million to $15 million tailwind next year, does that sound right?

Rohit Bhardwaj

Yeah, probably. That's in the ballpark, yeah.

Joel Jackson

Okay. And longer-term question: So, gentlemen, you've stabilized the businesses, you're past the legal issue that you inherited from GCC, you've stabilizing everything, like I said. You historically had a history of buying a business every two or three years, levering up, and then driving some synergies, levering down, doing it again every few years. It's been a tough few years, but what's next for this business? Are you still in sort of stabilization mode? Are you starting to look around for things? You're obviously selling one a couple of your specialty businesses, but what's next for Chemtrade?

Mark Davis

Let's talk about two or three different things. One is maybe we're past stabilization mode, but we're not past optimization mode. Right? We still think that there are a number of improvements that actually we could bring to our existing businesses. And that will be a clear focus for us for 2020. So, that's one.

Secondly, with our current leverage, we are not going to be in an aggressive growth mode until we reduce our leverage, either through a value-added sale of our specialty business, which is one thing, but more importantly and more within our control is actually an increase in the profit or EBITDA generation from our businesses, which is both optimization and market improvements for some of our key products.

So, those are really, I think, one and two. And then as leverage comes down and operations continue to improve, our overriding thesis has not changed. In our industry, size, scale, and diversity of earnings is important and we'd like to continue adding size, scale, and diversity, but we need to optimize first and reduce leverage first.

Joel Jackson

Can you maybe provide one or two, or at least one, low-hanging fruit for optimization that we could all understand?

Mark Davis

Well, the one we just talked about, for example, was rationalizing regen capacity in our Beaumont plant and therefore not having to incur the CapEx and costs of running a regen plant at Shreveport, for one, right? We did that three weeks ago or something like that.

Rohit Bhardwaj

We continue to work on our supply chain side and our railcar fleet. We've done a bunch of it, but there's still more to do there. So, that's definitely one opportunity that we are working on.

Mark Davis

We've improved our ability to produce ultra pure sulphuric acid, but we keep on running essentially Six Sigma events on those different manufacturing facilities and every extra tonne of ultra pure acid out is a good value-add for us. I mean, there's a myriad of things, but there are two or three that we just gave you that are on the list.

Joel Jackson

Thank you.

Mark Davis

Thanks, Joel.

Operator

And your last question in queue comes from the line of Steve Hansen of Raymond James. Your line is open.

Steve Hansen, Raymond James

Hey, guys. Just a quick one here. Could one of you perhaps elaborate a little bit more on the current status of the challenges facing the specialty chemicals in your water treatment division? You suggested they're still in place, but we haven't really had an update in a while as to the status on potassium pentasulfide and I believe the KCL customer moved off-line for a while. I just wanted to get an update there as to where we sit and what the directional timeframe might be to rectify those issues.

Mark Davis, President & Chief Executive Officer

Yeah, I'll give you three little snippets for you, right? First is actually on KCl. We are actively searching for additional customers to sell out the extra volume that we have while that one key pharmaceutical guy is planning at buying at lower rates for this year and probably into 2021. So, we see a significant improvement in the KCl business, but not until late 2021 or 2022.

There's a little bit of headwinds that we faced this year in our P_2S_5 or phosphorus pentasulfide business. That is something, for those that don't know that goes into automotive lubricants. And again, with the various trade wars around and the production of autos and where lubricants are being produced, we think that's a headwind this year. We don't think it's a headwind next year. But again, similar to other comments we've made, the various tariffs and trade wars do make it hard to predict, but we don't think that should continue next year.

And finally, our sodium nitrite business, that's a business that has been fighting low-cost imports from the Indian market and we think that that market dynamic has stabilized. We are not sure yet the speed of a recovery in that business.

Steve Hansen

Okay. Very helpful. And then just the last one, and I have to ask it, but just as you contemplate the idea of deleveraging going forward, have you thought about at all the idea of reducing the dividend in order to de-lever more quickly? I know you don't need to, but just whether or not that's even on the table or that would be worth understanding.

Mark Davis

Right now it's not our intention to actually reduce our distributions. I think what we've said before was that if our operations improve and our unit price doesn't reflect that improvement and we're paying out at a huge yield and not getting value for it, we have to think about it as actually, hopefully, responsible allocators of your capital, but we don't see actually reducing the distribution in order to de-lever quicker.

Steve Hansen, Raymond James

Okay. Very helpful, guys. Thanks. Appreciate it.

Operator

And there are no further questions in queue at this time. I turn the call back to the presenters for any closing remarks.

Mark Davis

Thank you all for your attention and we look forward to talking to you at the end of the next quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

(1) Non–IFRS Measures

EBITDA and Adjusted EBITDA –

Management defines EBITDA as net earnings before any deduction for net finance costs, taxes, depreciation and amortization. Adjusted EBITDA also excludes other non-cash charges such as gains and losses on the disposal and write-down of assets, and unrealized foreign exchange gains and losses. EBITDA and Adjusted EBITDA are metrics used by many investors and analysts to compare organizations on the basis of ability to generate cash from operations. Management considers Adjusted EBITDA (as defined) to be an indirect measure of operating cash flow, which is a significant indicator of the success of any business. Adjusted EBITDA is not intended to be representative of cash flow from operations or results of operations determined in accordance with IFRS or cash available for distribution.

EBITDA and Adjusted EBITDA are not recognized measures under IFRS. Chemtrade's method of calculating EBITDA and Adjusted EBITDA may differ from methods used by other income trusts or companies, and accordingly may not be comparable to similar measures presented by other organizations.

A reconciliation of net earnings to EBITDA and Adjusted EBITDA is provided below:

	Three months ended September 30		Nine months ended September 30	
($'000)	**2019**	**2018**	**2019**	**2018**
Net (loss) earnings	$ (163)	$ 9,194	$ (87,057)	$ (34,332)
Add:				
Depreciation and amortization	65,380	53,596	197,036	160,667
Net finance costs	22,675	13,092	75,997	48,863
Income tax recovery	(8,825)	(10,627)	(28,701)	(38,032)
EBITDA	79,067	65,255	157,275	137,166
Add:				
Impairment of goodwill	-	-	65,600	-
Loss (gain) on disposal and write-down of assets	9,917	(8,413)	10,522	(5,070)
Unrealized foreign exchange loss (gain)	1,046	(3,064)	(8,127)	(870)
Adjusted EBITDA	$ 90,030	$ 53,778	$ 225,270	$ 131,226

Segmented information

SPPC -

($'000)	Three months ended September 30 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
Revenue	$ 127,798	$ 129,572	$ 385,318	$ 380,683
Gross Profit	11,086	15,006	45,894	27,018
Adjusted EBITDA	43,689	22,237	126,502	69,164
(Loss) gain on disposal and write- down of assets	(9,221)	8,413	(9,973)	5,070
EBITDA	$ 34,468	$ 30,650	$ 116,529	$ 74,234

WSSC -

($'000)	Three months ended September 30 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
Revenue	$ 122,432	$ 116,601	$ 343,330	$ 327,869
Gross Profit	12,836	11,402	(34,457)	33,082
Adjusted EBITDA	24,335	24,114	63,261	65,371
Impairment of goodwill	-	-	(65,600)	-
Loss on disposal and write-down of assets	(1,661)	-	(1,657)	-
EBITDA	$ 22,674	$ 24,114	$ (3,996)	$ 65,371

EC -

($'000)	Three months ended September 30 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
North American Sales Volumes:				
Sodium Chlorate Sales Volume (000's MT)	98	103	294	305
Chlor-alkali Sales Volume (000's MECU)	49	48	140	129
Revenue	$ 145,423	$ 172,021	$ 448,992	$ 496,395
Gross Profit	17,495	37,361	62,133	88,051
Adjusted EBITDA	42,804	57,121	137,298	147,246
(Loss) gain on disposal and write- down of assets	(178)	-	873	-
EBITDA	$ 42,626	$ 57,121	$ 138,171	$ 147,246

Cash Flow –

Management believes supplementary disclosure related to the cash flows of the Fund including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities provides useful additional information. A cash flows table presenting this information is included in the Fund's MD&A filed on SEDAR. The table is derived from, and should be read in conjunction with, the consolidated statements of cash flows. Certain sub-totals presented within the cash flows table, such as "Adjusted cash flows from operating activities", "Distributable Cash after maintenance capital expenditures" and "Distributable Cash after all capital expenditures", are not defined terms under IFRS. These sub-totals are used by Management as measures of internal performance and as a supplement to the consolidated statements of cash flows. Investors are cautioned that these measures should not be construed as an alternative to using net earnings as a measure of profitability or as an alternative to the IFRS consolidated statements of cash flows. Further, Chemtrade's method of calculating each measure may not be comparable to calculations used by other income trusts or companies bearing the same description.

A reconciliation of these supplementary cash flow measures to cash flow from operating activities is provided below:

	Three months ended September 30		Nine months ended September 30	
($'000)	**2019**	**2018**	**2019**	**2018**
Cash flow from operating activities	$ 80,462	$ 102,567	$ 78,818	$ 164,611
Add (deduct):				
Lease Payments [1]	(14,131)	-	(42,616)	-
Changes in non-cash working capital and other items	(9,524)	(66,371)	90,291	(94,031)
Adjusted cash flows from operating activities	**56,807**	**36,196**	**126,493**	**70,580**
Less:				
Maintenance capital expenditure	19,668	17,210	45,872	46,216
Distributable cash after maintenance capital expenditure	**37,139**	**18,986**	**80,621**	**24,364**
Less:				
Non-maintenance capital expenditure [2]	4,631	4,472	9,833	9,026
Distributable cash after all capital expenditure	**$ 32,508**	**$ 14,514**	**$ 70,788**	**$ 15,338**