

Canfor

First Quarter Analyst Call

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PRESENTATION

Operator

Good morning. My name is Jenny, and I will be your conference Operator today. Welcome to Canfor and Canfor Pulp's first quarter analyst call. All lines have been placed on mute, prevent any background noise.

During this call, Canfor and Canfor Pulp's Chief Financial Officer will be referring to a slide presentation that is available in the Investor Relations section of the Company's website.

Also, the companies would like to point out that this call will include forward-looking statements, so please refer to the press releases for the associated risks of such statements.

I would now like to turn the meeting over to Mr. Don Kayne, Canfor Corporation's President and Chief Executive Officer.

Please go ahead, Mr. Kayne.

Don Kayne — President and Chief Executive Officer, Canfor

Thank you, Operator, and good morning, everyone. Thank you for joining the Canfor and Canfor Pulp Q1 2024 Results Conference Call.

I'm going to make a few comments before I turn things over to Kevin Edgson, Canfor Pulp's President and Chief Executive Officer; and Pat Elliott, Chief Financial Officer of Canfor Corporation and Canfor Pulp and our Senior Vice President of Sustainability.

In addition, we are joined by Kevin Pankratz, Senior Vice President of Sales and Marketing.

Before talking about our financial results, I'll share a few Q1 business updates.

As you know, over the past decade, we have been focused on building a globally diversified operating platform by increasing our footprint in the US South and Europe, while working towards a smaller, but stronger presence in British Columbia.

Although global lumber markets remained under pressure in Q1, thanks to this strategy we have a more resilient organization that has been better able to mitigate market-related pressures and the persistent constraints we continue to face accessing economically viable fibre in British Columbia.

Through a targeted and expansive capital investment program, we have been growing and transforming our manufacturing facilities in fibre-rich regions to be low-cost leaders that are globally competitive over the long term.

As part of this effort and our plans to optimize our operational footprint in Alabama, this quarter we announced that we will permanently close our Jackson facility in June and expand production at our nearby Fulton facility with a second shift.

These steps, together with our new state-of-the-art greenfield sawmill being built in Axis, Alabama, and pending closure of our Mobile sawmill, will improve our cost structure, optimize the fibre supply in Alabama, and add 100 million board feet of Southern Yellow Pine production capacity in the region.

By consolidating and expanding our Alabama operations, we will be better positioned to serve our global customers from a modern, competitive operating platform, while providing more sustainable jobs and improved working conditions for our valued employees.

Similarly, as part of our continued growth strategy in the US South, yesterday we announced an agreement with Resolute Forest Products to acquire their El Dorado lumber manufacturing facility in Union County, Arkansas.

Bringing this facility to Canfor creates synergies and vertical integration opportunities, given its complementary geographic fit with our existing operations in the region.

These include our El Dorado laminating plant, as well as our Urbana plant, which is progressing in its US\$130 million modernization that will increase production by 115 million board feet to a total 285 million board feet next year.

The El Dorado acquisition will capitalize on our regional manufacturing footprint to optimize our product portfolio and maximize value. We anticipate investing a further US\$50 million to upgrade the sawmill, which will increase its production capacity to 175 million board feet per year.

As we look forward to ongoing growth, we remain deeply committed to sustainability, which is embedded throughout our entire operations, from the forest to the customer.

This quarter, we released our 2023 Sustainability Report, highlighting the activities and our performance to advance our sustainability strategy.

We have an ambitious plan to be a leader in sustainable business focused on three key areas: people, planet, and products.

Our report tracks our progress across 13 material topics, each with discrete goals to significantly shift the way we do business.

Naturally, this includes a focus on climate change through our targets on Scope 1, 2, and 3 emissions, but it also includes improving safety, expanding relationships with Indigenous nations, increasing support for our operating communities, and further enhancing the diversity of our workforce.

Through these actions and our carbon-friendly products, Canfor is well positioned to be part of the solution to climate change.

Turning to our financial results. Our lumber business benefitted from solid lumber pricing and earnings in Europe, with strong contribution from VIDA highlighting the value of our diversification strategy.

In North America, weak lumber markets continue to reflect ongoing affordability issues related to inflation and the current interest rate environment, in addition to a significant decline in multifamily construction activity.

While our Western Canadian operations benefitted from improved pricing in the first quarter, our financial results continue to reflect the impact of weak North American lumber pricing challenges accessing economically viable fibre supply in British Columbia.

While lumber prices are anticipated to remain under pressure in the short term, Canfor has seen steady underlying demand in the repair and remodel sector, and we continue to believe the medium to long-term market fundamentals remain strong.

Notwithstanding current market conditions, our balance sheet remains strong, supporting continued reinvestment in our operations over the next several years.

I will now turn it over to Kevin to provide an overview of Canfor Pulp.

Kevin Edgson — President and Chief Executive Officer, Canfor Pulp Products Inc.

Thank you, Don, and good morning, everyone. Canfor Pulp generated improved financial results in the first quarter supported by a 7 percent quarter-over-quarter increase in pulp production and steady global pulp markets.

Notwithstanding the impacts of extreme winter weather in January, we continued to see improvements in our operating performance. Given projected weakness in North American lumber markets in the short term, combined with ongoing uncertainty with regards to the availability of

economically available fibre in BC, we continue to evaluate our operating conditions and remain focused on improving our operating performance and cost structure while optimizing the available fibre supply.

I would like to thank our employees for their resilience and continued efforts to enhance our operational performance as we respond to the external pressures facing our business.

Turning to pulp markets. While softwood pulp markets were steady in the first quarter, pricing has increased considerably to start the second quarter, driven by global supply disruptions and pulp producer downtime.

Looking ahead, we continue to believe strong global pulp market fundamentals will remain over the medium to long term, supporting our capital reinvestment plan. The magnitude of spend will be modest in 2024, with future spending completed as market and financial circumstances allow.

I will now turn it over to Pat to provide an overview of our financial results.

Pat Elliott — Chief Financial Officer, Canfor and Canfor Pulp Products Inc. and Senior Vice President, Sustainability, Canfor Corporation

Thanks, Kevin, and good morning, everyone. The Canfor and Canfor Pulp first quarter results were released yesterday morning.

In my comments this morning, I'll speak to the first quarter financial highlights, a summary of which is included in our overview slide presentation located in the Investor Relations section of the Canfor website.

Our lumber business generated an operating loss of \$57 million in the first quarter, which included a \$30 million recovery of our previously recorded write-down of inventory in Western Canada and a non-cash duty expense of \$15 million related to our anti-dumping duty accrual rate.

Adjusting for these non-cash items, our lumber business generated an operating loss of \$72 million in the first quarter compared to a similarly adjusted loss of \$111 million in the prior quarter.

Notwithstanding an improvement quarter over quarter, these results continue to reflect losses associated with our BC operations due to weak lumber pricing and a persistent lack of economically viable fibre.

While our Western Canadian operations benefitted from an uplift in SPF lumber pricing, lumber markets remained under pressure in the first quarter, particularly for Southern Yellow Pine.

Our European operations continued to perform well and contributed \$31 million in cash earnings in the first quarter, reinforcing the value of our diversification strategy. These results reflect the benefit of higher production and shipment volumes, as well as improved sales realizations.

Canfor Pulp generated an adjusted operating loss of \$16 million in the first quarter, an improvement of \$10 million quarter over quarter. These results largely reflected a modest uplift in pulp sales realizations, combined with the increase in pulp production previously mentioned by Kevin, which more than offset the impact of a challenging January related to extreme winter weather.

Canfor, excluding Canfor Pulp, ended the quarter with net cash of approximately \$225 million, following a seasonal build of working capital in Western Canada.

Notwithstanding current market dynamics, our balance sheet remains strong, supporting the continued reinvestment in our lumber business.

At the end of the first quarter, Canfor Pulp had net debt of \$85 million and \$148 million in available liquidity, of which \$80 million is restricted for use towards future reinvestment in Northwood's recovery boiler number one.

On a consolidated basis, capital expenditures were approximately \$103 million in the first quarter, including approximately \$12 million for Canfor Pulp. We anticipate capital spend of approximately \$450 million in the lumber segment in 2024, including remaining spend on our Alabama greenfield, planned capital investment at the El Dorado sawmill, and various organic growth initiatives in the US South and Sweden.

For Canfor Pulp, we are currently forecasting capital spend of approximately \$40 million in 2024, including capitalized maintenance.

In addition, we anticipate Canfor will continue to allocate a modest amount of capital to opportunistically repurchase shares throughout the year.

And with that, Don, I'll turn the call back to you.

Don Kayne

All right. Thanks, Pat. And with that, I'll turn it back to you, Operator, and so we're now ready to take questions from analysts.

Q&A

Operator

We will now take questions from financial analysts. If you have a question, please press *, 1 on your telephone keypad.

If you are using a speakerphone, please lift your receiver and then press *, 1. If at any time you wish to cancel your question, please press *, 2.

Please press *, 1 now if you have a question. There will be a brief pause while participants register for questions. Thank you for your patience.

Your first question is from Ben Isaacson from Scotiabank. Please ask your question.

Ben Isaacson — Scotiabank

Thank you very much, and good morning, everyone. First question on Southern Yellow Pine having come off quite a bit over the last quarter or so. Can you talk about how has that impacted export economics from Europe? Are you starting to see a pullback? And can you just give some colour on the dynamics there?

Don Kayne

Kevin, why don't you go ahead—

—and the Southern Yellow Pine situation?

Kevin Pankratz

So it's more Yellow Pine pricing and also SPF pricing that has impacted it. So we're finding, even with ourselves, our volumes from Sweden into the US are down a percentage or 2. And we're actually seeing less volume coming from Central Europe.

And the big reason they got better or alternative options at higher values to ship their product, be it the UK, Middle East, North Africa, and Asia. So we expect to go back to more historical levels for European imports and not what we saw January Q1 of the previous year.

Ben Isaacson

And how do you think about the spread between SPF and SYP? Obviously, it's kind of disconnected from what it's usually at. And do you think that's sustainable going forward?

Kevin Pankratz

The dynamics are for sure changing versus historical spreads there, Ben. And as production out of Western Canada comes under more pressure and reduced, you're going to see maybe a reversal or a

trend change where SPF 2x4 could be at a premium with just purely less volume and with more volume coming on the shelf that dynamic will trend—it'll change in the future.

Ben Isaacson

And just last one for me quickly. I know it's early days; it's only the start of May. But we're hearing that the wildfire season could be more intense than it was last year. Do you have any colour in terms of how that's progressing? And what is the risk for Canfor?

Don Kayne

The wildfire situation continues to be a concern. We continue to learn over the last five years there's been a lot of difficult years there. So we spend a lot of time, as the government has, to try to understand it better and to try to put in more mitigating actions to try to get in front of that. And I think that's happening.

But clearly travelling up to the mills last week, all our operations are concerned about it. There's been a few fires, particularly in Alberta, out of the gate that we've been working through.

But without a doubt, I think that's something that we just need to conclude that it's going to be an issue for several years going forward.

And so I think we learn each year more about it and how to fight it, how to prevent them, and so forth. And we'll continue to do that. And that's all I can really say about that.

Ben Isaacson

That makes sense. Thank you so much.

Don Kayne

No problem. Thanks, Ben.

Operator

Thank you. Your next question is from Sean Steuart from TD Securities Cowen. Please ask your question.

Sean Steuart — TD Securities Cowen

Thanks. Good morning, everyone. Couple questions. First on El Dorado, I appreciate your comments with respect to the synergies, I suppose, with your other assets in the region. But based on my previous coverage of other companies, this asset has a checkered history.

Can you give a little bit of context on how this transaction materialized? And a timeline to invest the remaining \$50 million to get capacity up to 175 million board feet and a little bit more detail on that front?

Don Kayne

Yeah. For sure. Down there we've been real thoughtful and patient in terms of opportunities as they arise and which ones kind of make sense to us and which ones don't. And that one is one that we've looked at for a number of years and mainly because of the fibre synergies that it provides with our Urbana facility there and just some of the synergies that it provides in terms of raw material supply to some of our vertically integrated facilities, particularly the El Dorado Glulam plant.

That's always been an opportunity that we'd like to expand on. So that's one of the main reasons. But it has been something we've looked at for a long time. We've also known through that period that we needed to spend some money there. We felt it was probably a bit under capitalized before.

And we believe and we're very confident with our folks that if we put in the amount of money we talked about there, we can make that into a solid operation going forward and in a fibre-rich area with some competitive fibre and high-quality fibre.

Those are all the things that we considered. And so we're happy to be able to conclude that.

Sean Steuart

And timeline on when you expect to get to 175 million board feet for that asset?

Don Kayne

That's going to be sometime probably towards the early part of next year, say, middle of next year or something like that.

Sean Steuart

Okay. Don, any update on the Houston potential reinvestment plan? Milestones that you need to advance that initiative? Has there been any progress on that front?

Don Kayne

Yeah. For sure, Sean, and a good question. What I would say there is as we have talked about in several of the previous calls, we certainly remain concerned about the challenging policy and operating environment here in British Columbia for us. So as a result of that, we continue to assess the impacts of some of those changes that I speak about.

Today I would say also, though, that we're even more concerned than we were before. The policy environment that I speak about here continues to change, seems to be quite dynamic, and as a result be very uncertain. So like I say, we're going to continue to assess those impacts.

And at the same time, Sean, I will say, that we are doing some preplanning that's still ongoing and also some permitting.

Sean Steuart

Okay. Thanks for that update, Don. That's all I have.

Don Kayne

Okay. Take care. See you.

Operator

Thank you. Your next question is from Hamir Patel from CIBC Capital Markets. Please ask your question.

Hamir Patel — CIBC Capital Markets

Hi. Good morning.

Don Kayne

Good morning.

Hamir Patel

Don, it seems like you've been seeing stronger R&R takeaway than some of your peers. Do you think you've been gaining share in that big-box channel?

Don Kayne

I think so, but I'll let—Kevin's been doing a lot of work on that. He's the expert on that there, so I'll let him speak to that.

Kevin Pankratz

Yeah. So when we're talking like the growth there, we're talking on a volume base, not dollar base, just to be clear because I think sometimes that gets a mixed-up headline. And so from our experience, January was a tough start for most people and most markets in the US, largely because of weather.

And in my meetings with folks there since then, we've seen a really good recovery in February and March. And year to date, we're actually pretty flat versus 2023. And that's with a poor start in January, so it sort of speaks to the gained momentum that we're seeing the latter part of the quarter.

And this segment continues to evolve and grow, and they are growing market share. So I hope that helps.

Hamir Patel

Yeah. It does. That's helpful. And then, Kevin, when you think about the weakness in Southern Yellow Pine and what's been driving that, I know your outlook had commented on weakness in multifamily. But we would think of single-family starts as using 3 times as much lumber as multi. So maybe you could speak more to why, perhaps, that weakness in multi is dragging down Southern Yellow Pine prices? And if you're seeing any signs of improvement there?

Kevin Pankratz

Yeah. Sure. I think that's one segment where it's going to take a bit of time for that market to recover. It's so dependent on the interest rate piece and just a longer time period to get those projects planned, engineered, and permitted. So they can't react as fast as single-family homes.

I think the other economic dynamic that's impacting multifamily is that rents over the last year have declined. So when they're looking at projects, either rents have to come up, or interest rates have to come down to make the economics work. And when you're talking to a lot of folks in this space, it's going to maybe start to see a recovery mid-2025 and then maybe not fully rolling until 2026.

And the US South, just like it's heavy for single-family, it's really heavy for multifamily. Over 50 percent of multifamily projects are in the US South. And so, disproportionately Yellow Pine is more impacted.

You're right, 3 to 1 on the volume for lumber, but it's not zero. And there's a lot of lumber 2x4, especially, that goes into sill plates and into trusses and spans. And so, I think that's a dynamic that is playing out right now that is contributing to the Yellow Pine price pressures that we're seeing.

Hamir Patel

Great. Thanks. Thanks for that, Kevin. That's all I had. I'll turn it over.

Operator

Thank you. Your next question is from Ketan Mamtora from BMO Capital Markets. Please ask your question.

Ketan Mamtora — BMO Capital Markets

Thank you, and good morning. First question on log inventory in BC. How is that for you guys at this point? There's been some talk that because of the warm weather that log inventories have not been able to be in that position where it should be for this time of year. How are you guys positioned?

Don Kayne

We're in decent shape for sure and mostly that was a result of Polar, Houston, and also Chetwynd being down. So we're in good shape as a result of that.

Ketan Mamtora

Understood. So you don't anticipate any sort of production challenges as we go through Q2 here in terms of where your log positions are and how much you need to produce ultimately in a seasonally stronger time?

Don Kayne

Overall as a result of everything, we're not anticipating any more downtime, if that's where you're getting at, on production levels going forward because of the log situation. But as we've said numerous times, we focus hard on matching our production with market demand, and we'll continue to keep a close eye on that. And if we need to take some downtime because of market demand, we'll do that. And we're not afraid to do that. We'll continue to do that.

Ketan Mamtora

Got it. That's helpful. And then maybe one for Pat. Pat, on the capital allocation side, I'm just curious. As you think about sort of M&A and the acquisition that you just announced yesterday, sort of between that and share repurchases, given where the stock is, how do you sort of think about evaluating those two options? Perhaps you can provide some colour on that?

Pat Elliott

Yeah. So, Ketan, I mean, I think we've been fairly consistent on this the last number of years that the diversification of our business into the US South and into Sweden is paramount, frankly, to improving our operating results over time.

While buying back the stock, clearly, on straight math you can see the value, and we bought back about 2 million shares in the last year. So it's not like we haven't been active.

But we really see the priority is continuing to invest in low-cost assets in the right regions, and that's our priority. And even the El Dorado when you look on a cost per thousand basis, I think it's highly competitive the price that we paid. So we're not going to go out and buy any asset, but we're going to act opportunistically.

And then the reinvestment in our own business through the greenfield, I think, sets us up really well for the future. So I think we've been pretty consistent on that, and that's our plan going forward as well.

Ketan Mamtora

Got it. That's helpful. I'll turn it over. Good luck.

Don Kayne

Thanks, Ketan.

Operator

Thank you. Your next question is from Matthew McKellar from RBC Capital Markets. Please ask your question.

Matthew McKellar — RBC Capital Markets

Hi. Good morning. Thanks for taking my questions. First, I'd just like to ask about the Polar mill. I think when that originally went down when you announced it in November, you were talking about maybe a six-month sort of period of curtailment there.

Is there a path back to restarting that mill in 2024, given what you're seeing around access to economic fibre in the province?

Don Kayne

Yeah. I'll try to answer that. In British Columbia, as I mentioned on the question earlier about Houston, the operating conditions are still remaining quite challenging here as we continue to face the ongoing constraints associated with the lack of economically viable fibre. And we've said that a lot and that continues to be the case.

And in Western Canada, there still remains significant uncertainty with regards to that availability of that fibre. So we continue to anticipate sustained log cost pressures and persistent constraints accessing that fibre in BC at those sawmills. And as well as it's been a challenging environment, fibre environment, for pulp mills, too.

So with all that going on, we continue to evaluate some of the options, and we'll adjust our operating rates in BC to align with that demand and the economically available timber supply in the near term.

And we'll continue to do that through 2024. That's not going to change, like I think I mentioned earlier. Right? So Polar falls into that category.

Matthew McKellar

Okay. Thanks for that colour. Next I'd like to just follow up on Ben's question around forest fires. I think last quarter you'd noted a slower approval process in BC in regards to the salvage harvest following last year's fires.

Could you give us a sense of how things have evolved on that front over the past couple of months?

Don Kayne

I'm not sure I can answer that question 100 percent in terms of where we're at on that, other than like I kind of mentioned it earlier, there's lots of initiatives underway here to try to get ahead of the situation of wildfires for sure in BC.

I will say this, Alberta's pretty good. They're on top of things, for sure. And not that BC isn't, but the bigger impact here is in BC, for sure.

Matthew McKellar

Okay. Thank you. And then last question for me just on the Canfor Pulp side. We're seeing some competitors out there with a couple of price increases for kraft paper in the markets.

With that backdrop, how should we be thinking about your realizations over the balance of '24?

Kevin Edgson

Thanks very much for the question, Matthew. We expect to see on the pulp side, there's another round of increases coming in May. We think the step-up through the first half of the year has been really

solid and we're looking more stable out the back end, given that it's driven largely by supply constraints. We need the market, the paper market to catch up.

On the kraft paper side, we'll be announcing or have announced an increase, a somewhat modest increase for the second quarter that we expect to be in place by June. Paper is moving slower than pulp, and so we continue to expect some increases through the back half of the year on paper.

Matthew McKellar

Great. Thanks. That's all for me. I'll turn it back.

Operator

Thank you. There are no further questions. I will now turn it over to Don Kayne for closing comments.

Go ahead, Mr. Kayne.

Don Kayne

Thanks, Operator, and thanks, everyone, for participating in this morning's call.

We appreciate your support, and we look forward to talking to you at the end of the next quarter.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you, all, for joining. You may all disconnect.