

## Canfor

### Second Quarter Analyst Call

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*Canfor Pulp Products Inc. — President and Chief Executive Officer*

### **Pat Elliott**

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

### **Kevin Pankratz**

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## **CONFERENCE CALL PARTICIPANTS**

### **Ben Isaacson**

*Scotiabank — Analyst*

### **Sean Steuart**

*TD Securities — Analyst*

### **Matthew McKellar**

*RBC — Analyst*

### **Ketan Mamtora**

*BMO — Analyst*

## PRESENTATION

### Operator

Good morning. My name is Ynnah, and I will be your conference Operator today. Welcome to Canfor and Canfor Pulp's second quarter analyst call. All lines have been placed on mute to 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 Q2 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, and David Trent, our SVP of Supply Chain, Transportation, and Digital.

Before touching on markets, I'll share a few Q2 business updates.

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

To that end, during Q2 we made some difficult decisions with respect to our BC operations, including the permanent closure of our Polar Sawmill in the Prince George area and the suspension of plans to reinvest in a new Houston sawmill.

Operating conditions in British Columbia remain extremely challenging as we continue to face persistent and significant constraints accessing economically viable fibre. Coupled with current market conditions, we have taken steps to reduce our summer operating schedules by 90 million board feet.

Despite BC's challenges, our Kootenay operations have performed well as they support our high-value product focus serving geographical diversified markets. With BC's high-cost operating environment and depressed North American lumber markets, and expected increases in export duties next month, we will continue to evaluate and adjust our BC operating rates to mitigate ongoing losses.

In Alberta, we continued to generate positive operating income in Q2, supported by favourable log costs and strong operating results. We continue to see progress in productivity uptime and great improvement there.

In the US South, in April we announced a decision to permanently close our aging Jackson, Alabama mill, which was completed mid-June. This action was taken as part of our continued focus on restructuring, consolidating, and expanding our production at modern facilities in regions with strong fibre baskets.

Our Axis, Alabama greenfield project is proceeding well as we work towards start-up in the fourth quarter. Upon commissioning of this facility, our existing sawmill in Mobile, Alabama will close.

These investments and strategic consolidation of our Alabama operations will strengthen our long-term position at well capitalized, highly efficient facilities that are positioned to be competitive for the long term.

Our pending acquisition of El Dorado, Arkansas is expected to close imminently and, after a planned US\$50 million capital investment, will grow to a 175-million-board-foot facility over the next several years. Complementing our existing assets in the region, this acquisition will create synergies and vertical integration opportunities as we grow our footprint with top quartile operations.

I also want to highlight our European operations, which continue to deliver strong earnings this quarter, largely tied to solid activity and improved market pricing. Our VIDA operations benefit from market optionality and, with their focus on specialty products, are able to differentiate themselves from competitors in commodity markets.

I'll also touch on two issues that we're closely watching and preparing for. The first is disruption to our supply chains, particularly with the shutdown of CN's main line due to the Jasper wildfire, as well as the potential for a Canadian rail strike involving both Canadian National and Canadian Pacific-Kansas City Southern. With rail making up approximately 50 percent of Canfor and Canfor Pulp's combined transportation capacity, the stability and reliability of Canada's two major railways is of significant concern. We're planning mitigating actions to ensure that our businesses are in the best possible position, should a rail labour disruption occur.

The second is the ongoing softwood lumber dispute and the increased duty environment. In February this year, the US Department of Commerce announced preliminary rates for the fifth period of review, which we anticipate will rise considerably when they go into effect in August. As of the end of Q2, Canfor has paid cumulative cash deposits of \$956 million.

This quarter posed considerable challenges for our Lumber business. While we continue to believe market fundamentals remain solid for the medium to long term, we anticipate lumber markets to remain challenging for the balance of the year.

Notwithstanding current lumber market dynamics, solid results in Europe and Alberta highlight the value of our diversification strategy. We have started to see improvements in our underlying cost structure, following recent capital investments and the difficult but necessary decisions to restructure our lumber platform. We believe these decisions will allow us to capitalize on solid market fundamentals for the long term and provide a stronger platform going forward.

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 solid financial results in the second quarter, with strong global pulp pricing more than offsetting the impact of lower production.

On the back of global supply disruptions and producer downtime, pulp pricing in China was up 9 percent in the second quarter, with more pronounced increases seen in North America and Europe. While a portion of this price increase will be realized in our third quarter results, improved pricing contributed to a \$16 million improvement in cash earnings quarter over quarter, before taking into consideration restructuring costs.

Turning to our operating performance, our results reflected the impact of a scheduled maintenance outage at Intercon, combined with the unplanned downtime to accommodate repairs to Intercon's recovery boiler. While pulp production was down 18 percent quarter over quarter, operating rates improved in June and have returned to normalized levels in July.

In May, we announced the decision to indefinitely curtail one production line at our Northwood NBSK pulp mill due to a lack of economically available fibre in northern BC. The curtailment is anticipated to commence in August. We regret the impact these decisions have on our employees, their families, and the local community. And I'd like to thank our employees for their unwavering commitment and perseverance as we respond to the external pressures facing our business.

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

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

Thanks, Kevin, and good morning, everyone.

The Canfor and Canfor Pulp results were released yesterday afternoon. In my comments this morning, I'll speak to our financial highlights, a summary of which is included in our overview slide presentation, located in the Investor Relations section of Canfor's website.

Our Lumber business generated an operating loss of \$231 million in the second quarter, which included a \$51 million write-down of inventory, a non-cash duty expense of \$40 million related to our anti-dumping (duty) accrual rate, a \$32 million asset impairment charge, and a \$33 million restructuring expense in connection with several sawmill closures announced in the quarter.

Adjusting for these non-cash items, our Lumber business generated an operating loss of \$75 million in the second quarter, compared to a similarly adjusted loss of \$72 million in the first quarter.

These results reflect sustained weakness in North American lumber markets and losses associated with certain BC operations due to constraints accessing economically available fibre.

The European operations contributed \$45 million in cash earnings in the quarter and approximately \$76 million year to date, highlighting the importance of our diversification strategy.

European results reflect the benefit of improved lumber sales realizations and, to a lesser extent, increased production and shipping volumes.

Canfor Pulp generated an operating loss of \$6 million, including a restructuring charge of \$6 million related to the upcoming Northwood one-line indefinite curtailment. This compares to an operating loss of \$16 million in the first quarter.

As Kevin mentioned, improved results largely reflected the benefit of higher pulp pricing, which more than offset the impact of reduced production and shipment volumes associated with downtime at Intercon.

At the end of the second quarter, Canfor Pulp had net debt of \$79 million and \$154 million of available liquidity, of which \$80 million is restricted for use towards a potential reinvestment in Northwood's recovery boiler number one.

Canfor, excluding Canfor Pulp, ended the quarter with net cash of approximately \$139 million.

On a consolidated basis, capital expenditures were approximately \$170 million, including approximately \$14 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, various growth initiatives in the US South and Sweden, and planned capital investments at the new El Dorado facility.

We anticipate a significant reduction in our capital spend in 2025 following the completion of the three major projects in the US South in this year. For Canfor Pulp, we are currently forecasting capital spend of approximately \$50 million in 2024, including capitalized maintenance.

Consistent with prior quarters, we anticipate Canfor will allocate a modest amount of capital to opportunities to repurchase shares throughout the year.



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

**Don Kayne**

Thanks, Pat. So, Operator, we're now ready to take questions from analysts.

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## Q&A

**Operator**

Thank you. 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 request, please press \*, 2.

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

Your first question comes from the line of Ben Isaacson from Scotiabank. Please go ahead.

**Ben Isaacson — Scotiabank**

Thank you very much and good morning, everyone. Just two quick ones—

**Don Kayne**

Good morning.

**Ben Isaacson**

—for me. First, can you just run through your capital spending plan over the next three years? And specifically, how much flexibility is there to pull back if needed? I mean, we've seen the announcement out of Houston, and you've mentioned your commitment to the El Dorado facility as well. Thank you.

**Pat Elliott**

Hey, Ben. It's Pat. I'll go ahead. I wouldn't say we have a publicly available capital plan for the next three years. Obviously, the team's got lots of ideas. I think our strategy that we've talked about a lot over the last couple of years, is this major reinvestment in US South, which is kind of coming to its conclusion this year. Our goal is to arrive at the end of this year with a very strong balance sheet, which we'll do. As I mentioned in my comments, we still have \$140 million of net cash.

So beyond that, we have not made any major commitments. We have the ability to go kind of however we want. I would say, at this point, we will read the market, and we'll look at how we ramp up our new facilities, and then we'll make decisions on that basis. But we're not committed to a major capital program beyond the end of this year.

**Ben Isaacson**

That's helpful. Thank you. And then just my second question is on the European business. Can you just tie together how you see Europe doing in conjunction with exports coming into the US market as well? Like do you expect that to continue slowing down as well, as Europe starts to pick up? Thank you.

**Don Kayne**

For sure. In fact, maybe I'll just make a quick comment on that, Kevin, you can add to it. Thanks, Ben, first of all, for the question. I think, in terms of our Swedish mills and shipping into the United States, clearly, we've been pretty consistent there over the years, and it's right around 10 percent, maybe at some point 15 percent.

But basically, the real advantage of Sweden, that we're able to capitalize on, is the fact that we've got so much optionality in terms of where our products go from Sweden because of the high-value focus that we have there. So we got lots of choices, from Middle East, North Africa, to Australia, to Japan, basically all markets.

And so, as we look forward, we don't see a real big change in terms of what we're doing there. If anything, it'll probably be kind of similar to where it's at, or a bit less.

**Ben Isaacson**

Great. Thank you very much. Appreciate it.

**Don Kayne**

Thanks.

**Operator**

Thank you. And your next question comes from the line of Sean Steuart from TD Cowen [Securities]. Please go ahead.

**Sean Steuart** — TD Securities

Thank you. Good morning, everyone. A couple questions. Pat, I'll start with you or, Don, if you want to take it as well. The slow buyback activity—and this has been a trend for you guys and, arguably, you were wise to wait when others were buying back stock at higher levels. Given the balance sheet strength, especially as CapEx is set to moderate here, what do you guys wait for in terms of the signal to get more aggressive? Is it a clear floor in the commodity market? Transparency on earnings bottoming out? Just updated thoughts on how you're thinking about the NCIB?

**Pat Elliott**

Sure, Sean, I'll take that. Yeah. I think, we have, been fairly clear the last couple of years that we saw our strategic imperative for us was to continue to diversify our business, through capital investment in US South and in Sweden. We've committed to that, and we've done that, at the same time reserving that balance sheet optionality that I just spoke about on the prior question here.

And so I think, as we think about where we arrive at the end of '24, we're very comfortable with our balance sheet. And frankly, we're not going to stretch it. I think, when you talked about market outlook, we're still cautious about 2025.

And so I think you're going to see us just continue to pick away at the share buyback, but I don't think there's a signal that would really change that. We believe that the stock is undervalued, and we acknowledge that. But we think the bigger return in the long term is around this diversification strategy, and so we'll continue to focus on that, and then continue to preserve that balance sheet strength as we move into really uncertain markets over the next 12 to 18 months.

#### **Sean Stuart**

Okay. Thanks for that context. Second question is just on sawmill downtimes through the back half of the year. You threw out some numbers in addition to Polar going down permanently. I guess, Don, a little more clarity on how you take that downtime, whether it's in BC or the US South. How concentrated is that around a few assets? Is it broad-based shift reductions? How do you, I suppose, optimize cost structure as you continue to take these rolling curtailments?

#### **Don Kayne**

For sure. Maybe I'll take that, Sean. I think that for Q3, you can expect it, in total, will be around 150 million to 200 million in total downtime, across North America. So, including the Southern Pine as well as BC particularly. And that's probably going to be in the neighbourhood of 60 percent to 65 percent, something like that in BC. And when you start to look at that, what we try to do, and we'll continue to do is just to match our production as best we can with what we anticipate market demand will be.

The CapEx, or the downtime that we are taking in the US South, though, is basically related more to some of the CapEx that we're doing down there and to some degree, markets for sure because they're

not fantastic there either, as you know. But also in BC, it's more related to market and then some of challenges that we continue to face—seems like endlessly here—in terms of accessing economic fibre.

And so that's the decision, and that varies by mill in BC, maybe a little bit more specific to your question. We have different challenges around that in different parts of the province. But overall, it's still definitely a huge issue for us like it is, I think, for everybody in British Columbia.

**Sean Steuart**

Got it. Okay. Thanks for that. I'll maybe just sneak one last one in, Don. As rates on the duty side are set to increase in August again, any broader thoughts on developments in the trade file? It's my understanding the Canadian industry's been meeting regularly to try and come up with common ground to potentially go to the US with. Any thoughts on a pathway towards negotiations? If so, what sort of time frame are you thinking about?

**Don Kayne**

First of all I think, ultimately, we need to get a settlement at some point, which I've said many times. But at the end of the day, our view, and I think it—it just keeps increasing here with some of the uncertainty that's created by the situation in the US politically, same in Canada, really, politically.

But notwithstanding all of that, our view is that it's a ways away, for sure. And I think I've said a few times before, I don't think anything's changed from our point of view—it's still a ways out. Whether it's one, two years, three years, I'm not sure.

In terms of the group that's met, as you referenced. We've had conversations, for sure, and we've had a number of them, actually. And it's good that we do those. But in terms of that giving us any more confidence that there's an agreement here in the near term, we don't see that.

**Sean Steuart**

Thanks for that detail. That's all I have.

**Operator**

Thank you. Once again, should you have a question, please press \*, 1 on your telephone keypad.

And your next question comes from the line of Matthew McKellar from RBC. Please go ahead.

**Matthew McKellar — RBC**

Hi. Good morning. Thanks for taking my questions. Maybe I'll lead off with one for Kevin. How do you expect the closure of the line at Northwood to affect your cost structure in the Pulp business?

How do you think about the kind of dynamic around lower volumes, and some of the fixed cost absorption issues versus ability to source fibre from the tighter radius?

**Kevin Edgson**

Thank you for the question, Matt. We'll start on the operating costs. The intent that we have is to maintain our competitiveness at that mill on a single line, commensurate or improved on where it was with two lines. I think that's really required for us to maintain our position within the broader cost curve. That, therefore, will require reductions in our fixed costs that are proportionate with the reduction in the overall production.

In terms of accessing fibre, I think as you've heard from Don, the overall structure and problem within BC, it's affecting pulp every bit as much as lumber. And so I don't think that there should be views of material improvements in fibre costs going forward with this reduction.

**Matthew McKellar**

Okay. Thanks very much and that helps. And then just on European lumber, it sounds like you saw relatively solid DIY activity in Europe in Q2, and just setting aside the seasonal slowdown in Q3, do you expect that to kind of continue into Q4 and 2025?

And then, just can you provide us some updated colour on how you're thinking about how Swedish log costs evolve over the next few quarters, please?

**Don Kayne**

Maybe the first question, Kevin, you can maybe talk about that?

**Kevin Pankratz**

Sure.

**Kevin Pankratz**

Yeah. For sure. Matt, the DIY segment's been one of the more positive segments in the market in Europe, and expect that to continue in Q3, Q4. But the other segments, though, we are expecting a little bit more caution and challenge in the back half of the year as far as the DIY segment goes there.

**Don Kayne**

And then a second part, Matthew, on the question around log costs in Sweden. On a year-to-date basis, they're up probably in the neighbourhood of 5 percent to 10 percent, probably, depending on the location there as well. It varies a little bit. But on average, that's probably safe to quote that number.

But as we look forward, though, I think we've had some sequential increases here over the last number of quarters. And I think our view is that that's starting to slow down now. And as we go forward here, we expect that to continue to decline—not necessarily go down, but at least stabilize for the next while. And part of that's due to some of the manufacturers that are more commodity-focused, are more up against it than some of the specialty-focused companies.

So overall, though, we would say that it's getting to a point now where it's going to start to flatten out.

**Matthew McKellar**

All right. Thanks for the help. That's all from me. I'll turn it back.

**Don Kayne**

Okay. Thanks, Matthew.

**Operator**

Thank you. And your next question comes from the line of Ketan Mamtora from BMO. Please go ahead.

**Ketan Mamtora — BMO**

Good morning and thanks for taking my question. I'm just curious, to start with, on the lumber side. Can you talk to trends on the R&R side, especially as the quarter progressed? And as we sit here in end of July, have things stabilized? Are you seeing any kind of signs of uptick? Or are things slowing down even from what you saw in Q2? Can you provide any additional colour there?

**Kevin Pankratz**

Yeah.

**Don Kayne**

Go ahead, Kevin.

**Kevin Pankratz**

Yeah. For sure. Good morning, Ketan. Yeah. On the R&R segment in Q2, for sure, we saw the first signs of—based on our data, of it coming off from Q1. And we're tracking that data every week. And while it's off, it is still elevated above pre-COVID levels. So I think the R&R segment's probably guiding to that kind of trend for the balance of the year and expecting a bigger uptick in 2025 with larger projects, but definitely trending off from the pace that we have been at, that we saw in Q1 but, again, just to reiterate, above the pre-COVID levels of 2019.



**Ketan Mamtora**

Yeah. Kevin, is there any way to sort of quantify, on the R&R side, kind of where your volumes are, either on a sequential basis, or on a year-over-year basis, percentage basis? Any kind of, sort of, ballpark sense on kind of, say, how's that—how it's trended—

**Kevin Pankratz**

It really varies, depending on which region that you're in. But it could be anywhere from 2 percent to 8 percent. But it's in that kind of magnitude, but there is quite a bit of a range, depending on the regions on which you're looking at the data.

**Ketan Mamtora**

And, Kevin, are there any specific regions that are weaker? Or there's product categories within R&R that are weaker? Or is it more broad-based?

**Kevin Pankratz**

There's no one actually real specific one there, Ketan. It's kind of hard to quantify exactly where it's happening. But it really ranges from week to week and how they're doing their inventory replenishments. But just overall, it's just in that range that I said about that 2 percent to 8 percent.

**Ketan Mamtora**

That's helpful. And then just on lumber inventory, Kevin, just curious kind of what is your sense of where the inventories are, both at your mills and in the channels, kind of—

**Kevin Pankratz**

Sure.

**Ketan Mamtora**

—where we are [audio gap] time of the year?

**Kevin Pankratz**

Sure. Yeah. I mean that's a great question. And it's always one where we struggle to really identify with because when you look at the supply side, we know from with our European markets, we're seeing quite a bit of reductions, especially in Central Europe. You've had the BC reductions of curtailments that we've talked about already. And of course, you still have that Russian-Belarus supply disruption. So there's been quite a bit of supply out of the system.

And when we're in the market talking to all of our major customers, and while demand's off, it's not horrible. So if demand's off that 8 percent or 5 percent, obviously, the inventories are higher than we would think. And I think that's—it's hard to quantify but, obviously, it's a little bit higher than we would think because otherwise, we would see either price stabilization or some kind of price pickup. But that would sort of be my comments.

**Ketan Mamtora**

That's very helpful. I'll jump back in the queue. Good luck.

**Kevin Pankratz**

Thank you.

**Operator**

Thank you. Once again, should you have a question, please press \*, 1 on your telephone keypad.

Thank you. There are no further questions. I'll now turn it over to Don Kayne for closing comments. Go ahead, Mr. Kayne.

**Don Kayne**

Right. Thanks, Operator. And thanks, everyone, for joining the call. We appreciate your support of Canfor, and we'll look forward to talking to you at the end of the next quarter. Thank you.

**Operator**

This concludes today's call. Thank you for participating. You may all disconnect.