

# Canfor Corporation

Raymond James Home Building and Wood Products Forum

January 2020





# Raymond James

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The presentation and answers to questions today contain forward-looking statements which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions, product selling prices, raw material and operating costs, foreign exchange rates, interest rates, changes in law and public policy, the outcome of trade disputes, and opportunities available to or pursued by the Company.

For further details on these factors and our assumptions and applicable risks and uncertainties, please refer to Canfor Corporation's Annual Report for the year ended December 31, 2018 available at [www.canfor.com](http://www.canfor.com) or [www.sedar.com](http://www.sedar.com).

A stylized, light gray line-art illustration of a tree trunk and branches, positioned on the left side of the slide. The trunk is composed of several vertical lines, and the branches are represented by curved lines extending upwards and to the right.

# Lumber Supply & Demand

# 2020 – US Softwood Lumber Supply & Demand

## U.S. Lumber Supply

Supply (Bfbm)	2018 Est.	2019 Est.	2020 Fct.
U.S. PRODUCTION	34.9	35.1	35.5
Imports – Canada	13.6	13.2	12.8
Imports – EU & Other	1.4	1.5	1.9
U.S. Exports ( <i>minus</i> )	1.7	1.4	1.1
<b>Total Supply</b>	<b>48.2</b>	<b>48.4</b>	<b>49.1</b>

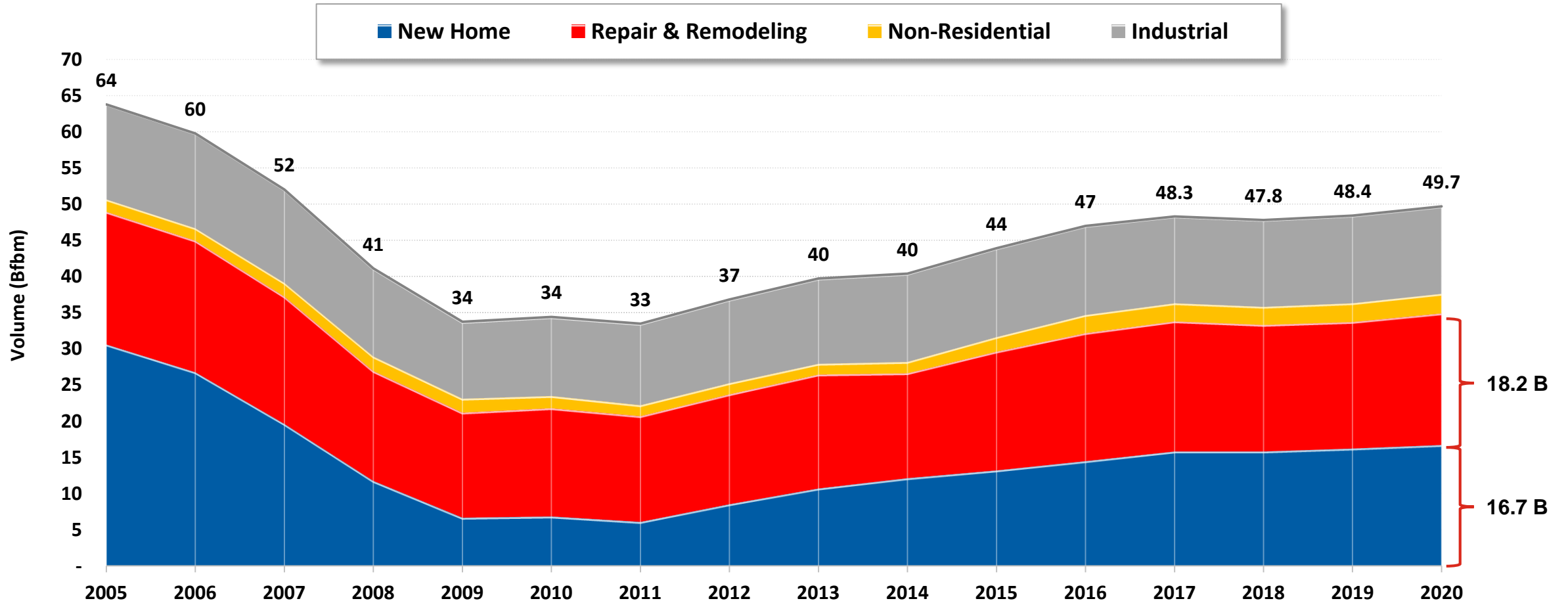
## U.S. Lumber Demand

Segments (Bfbm)	2018 Est.	2019 Est.	2020 Fct.
New Home <sup>1</sup>	15.8	16.2	16.7
Repair & Remodeling	17.5	17.5	18.2
Industrial	12.0	12.1	12.1
Non-Residential	2.5	2.6	2.7
<b>Total Demand</b>	<b>47.8</b>	<b>48.4</b>	<b>49.7</b>

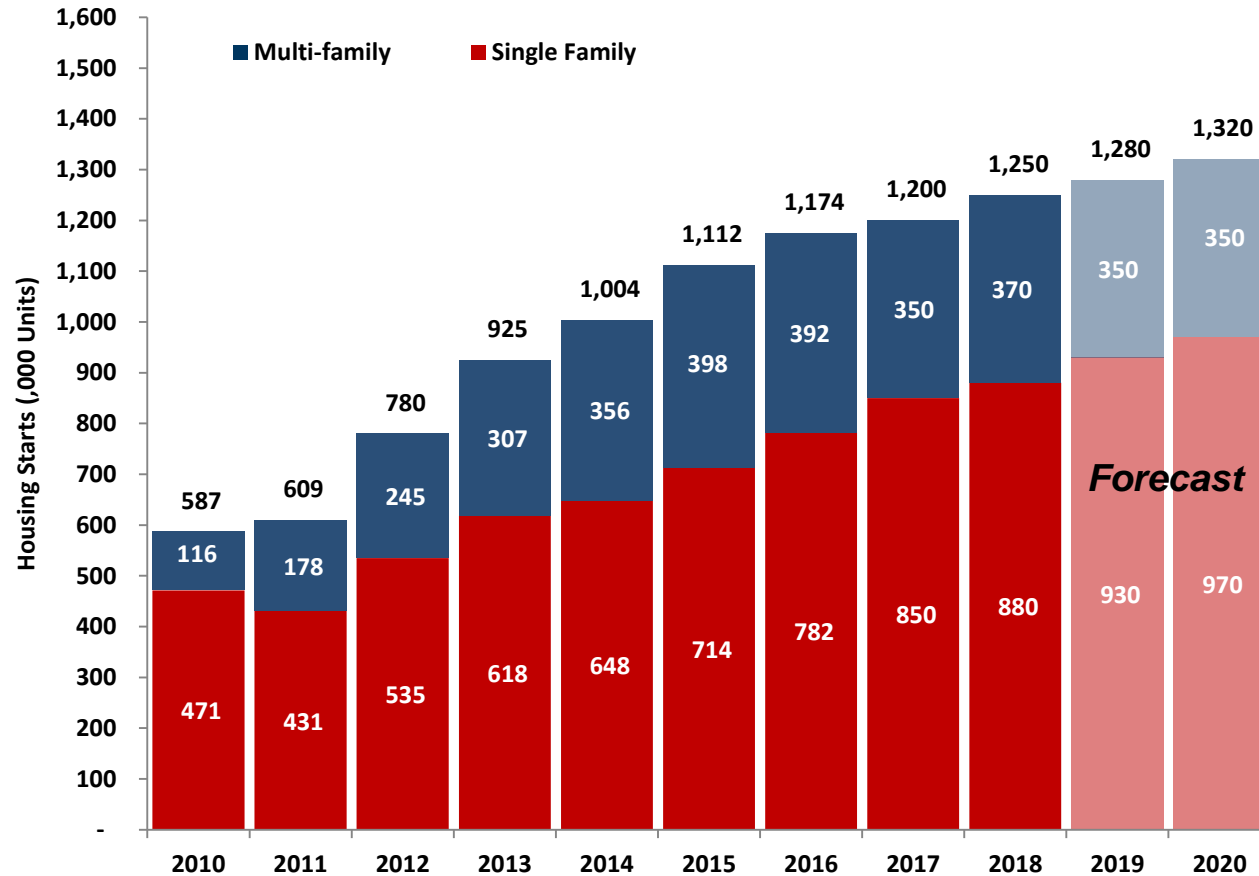
**Supply Deficit**

**~0.6 B**

# US Softwood Lumber Demand



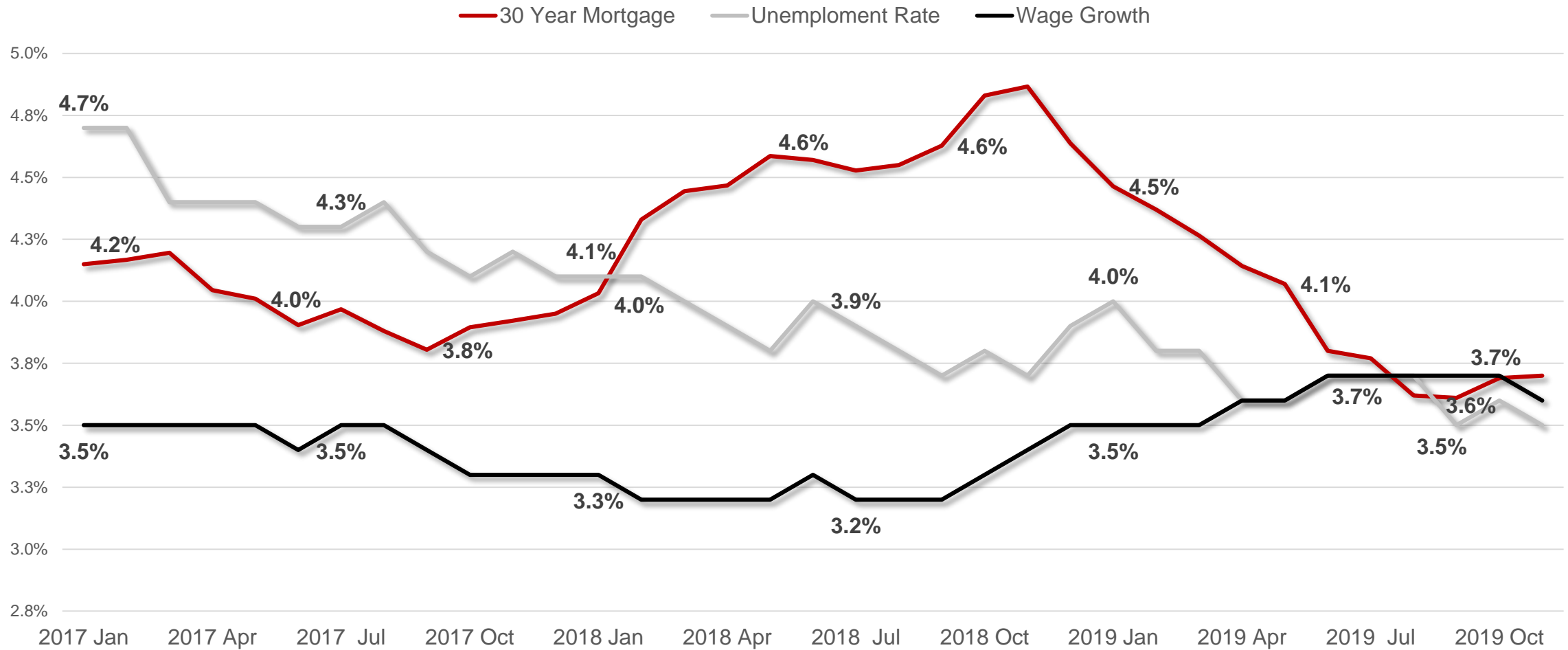
# US Housing Starts



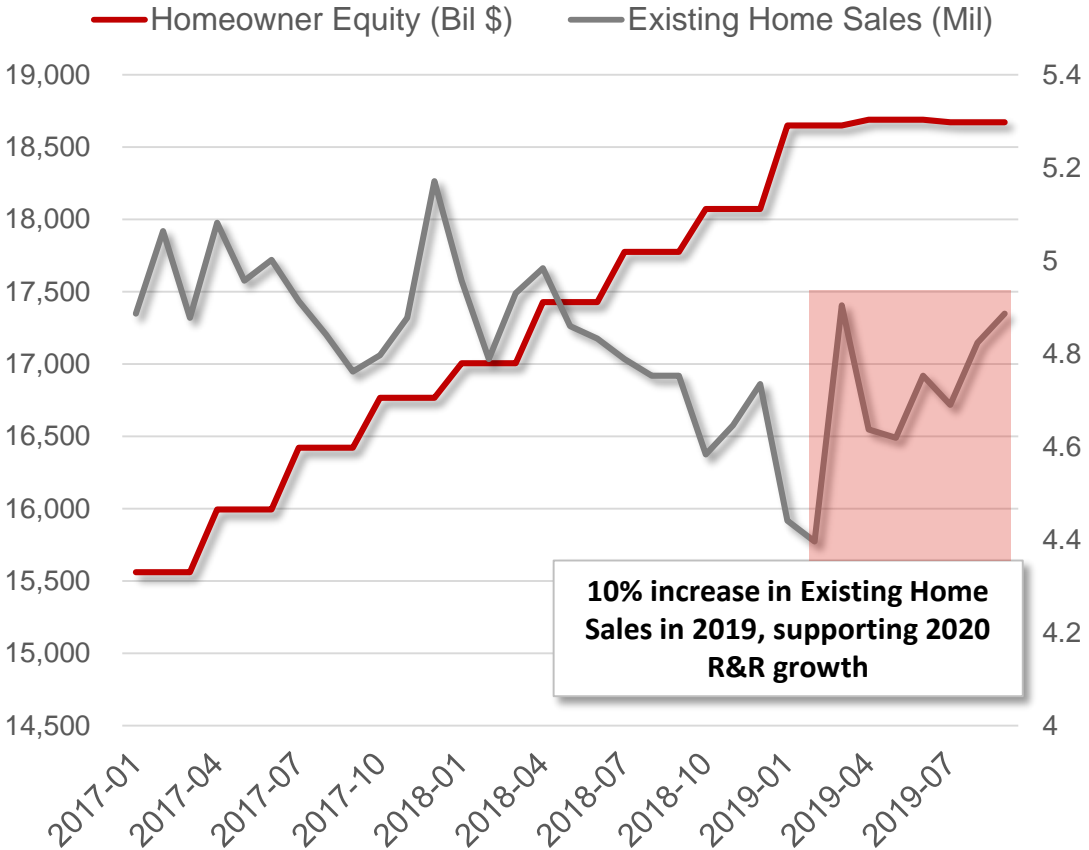
## Analysts' Forecast (1,000 units)

Analyst (,000 units)	2020
Mortgage Bankers Assoc.	1,305
Forest Economic Adv	1,363
CIBC	1,335
Freddie Mac	1,280
Fannie Mae	1,351
NAHB	1,286
<b>Average</b>	<b>1,320</b>

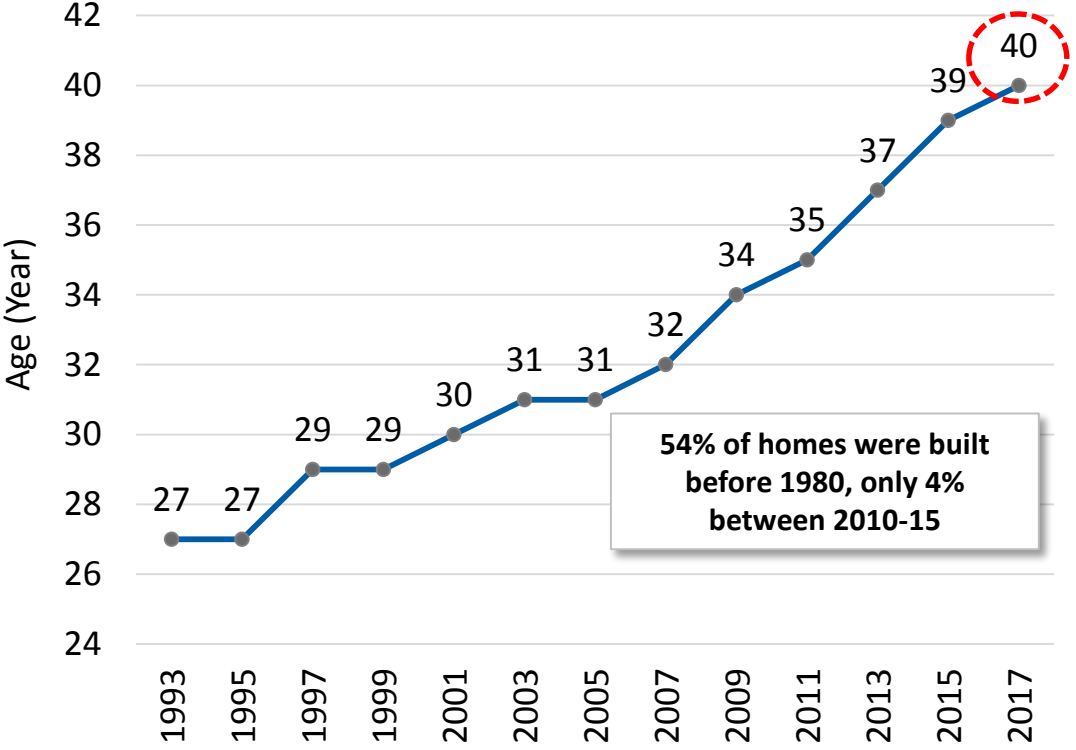
# Key Economic Indicators Support Housing Starts



# R&R Spending – Key Indicators Tracking Positively



## Median Age of Owner-Occupied Housing



Source: 2016 American Community Survey (ACS), FEA, St. Louis Federal Reserve, OECD





# Transforming Wood Use



Rapid innovation and changes to building codes around the world are transforming wood use

1877 Wood Frame Home



2017 Wood Frame Home



Off – Site Construction



Tall Building

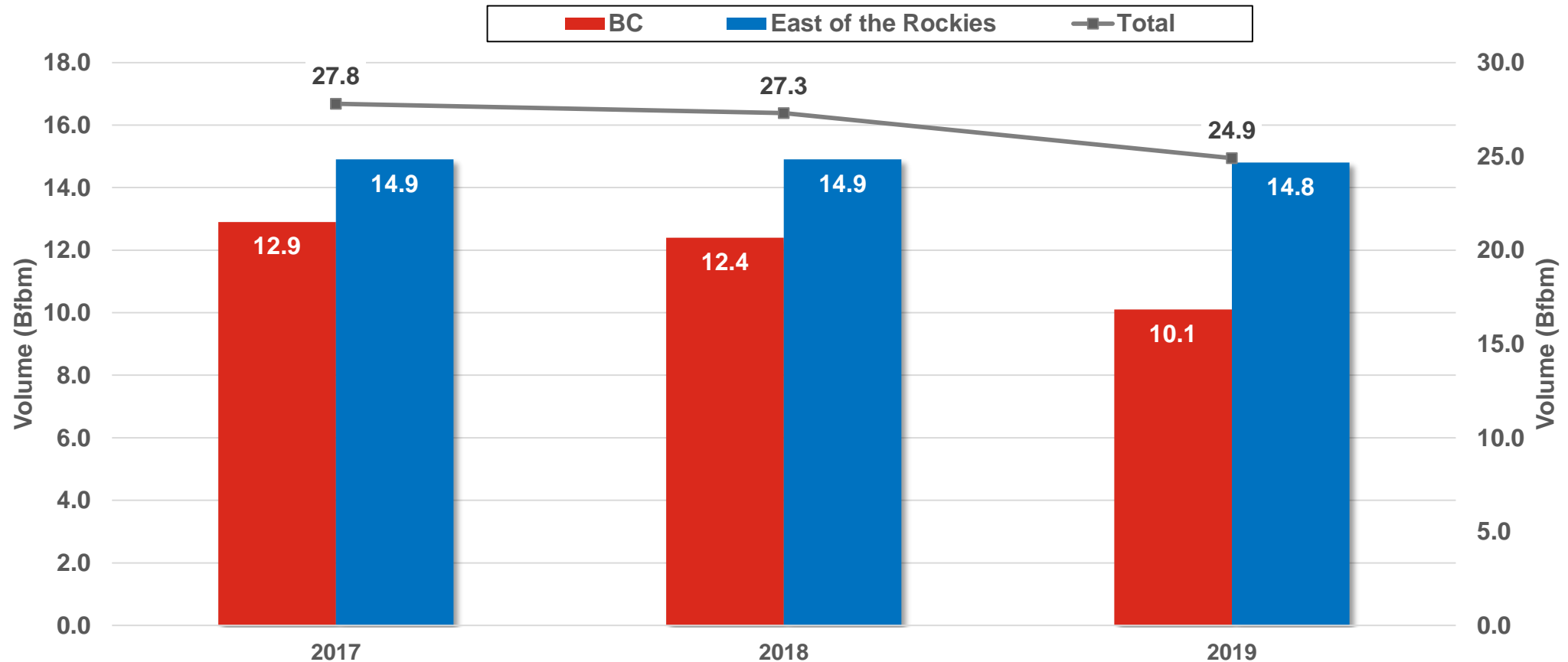


Skyscraper



# Canadian Softwood Lumber Production by Region

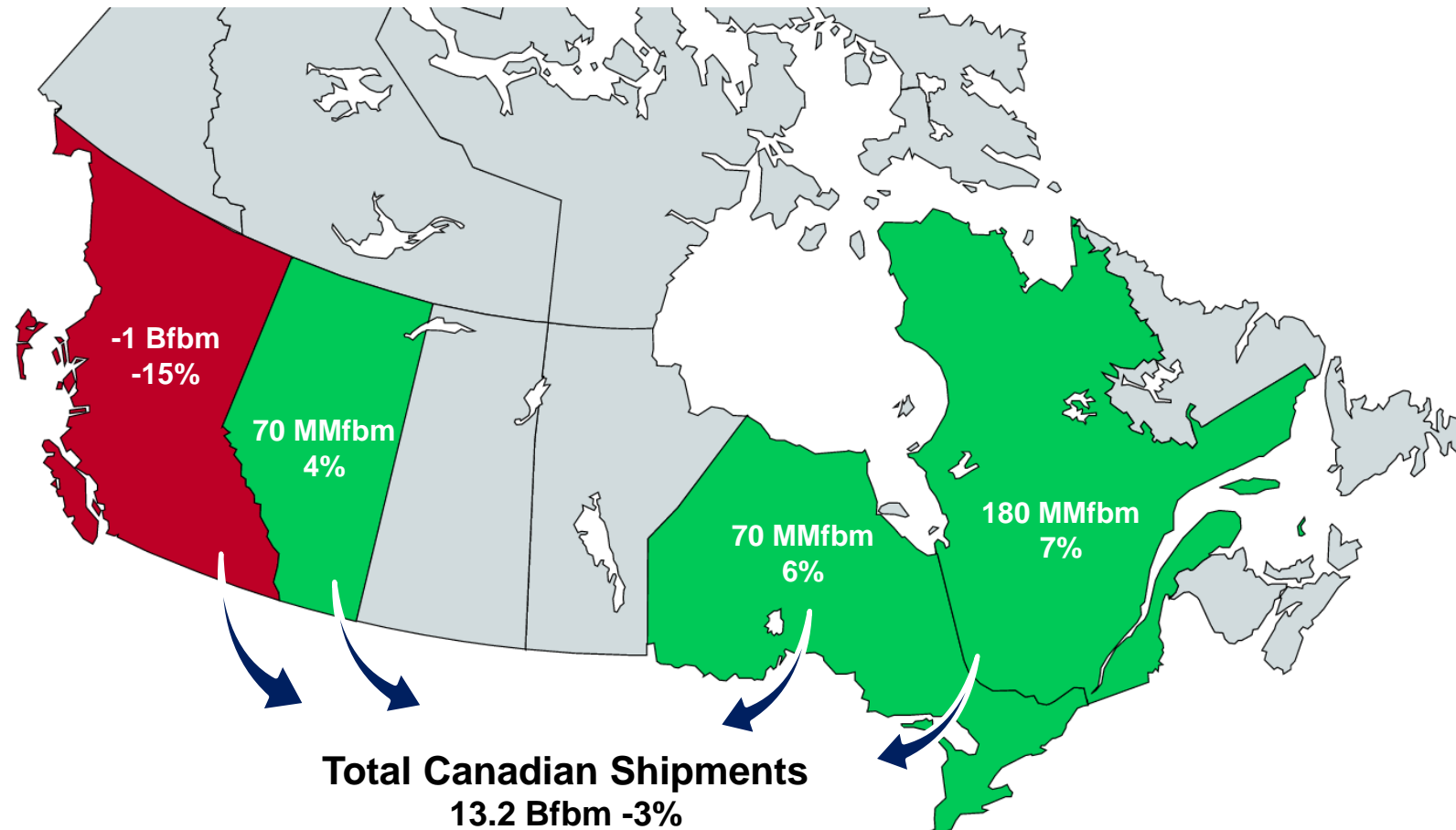
- Permanent annual capacity reductions of ~2.1 Bfbm announced in 2019
- BC production down 18% from 2018
- East of the Rockies production down 2.4% from 2018



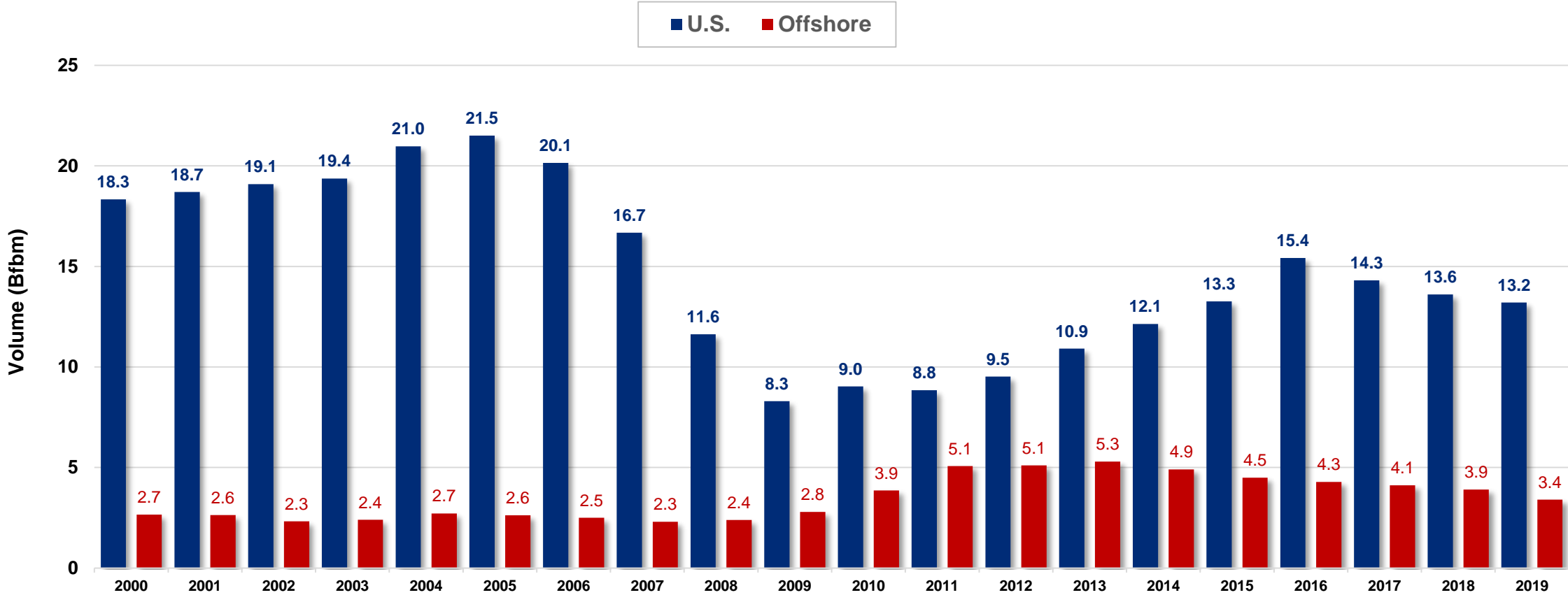
# Canadian Shipments to the US Decline in 2019

Production curtailments in BC partially offset by gains from Alberta, Ontario and Quebec

Volume (Bfbm)	2019	2018	% Chg.
BC	5.60	6.60	-15%
Alberta	1.73	1.66	4%
Ontario	1.33	1.26	6%
Quebec	2.79	2.61	7%
Maritimes	1.31	1.26	4%
Other	0.44	0.21	109%
<b>Total</b>	<b>13.20</b>	<b>13.60</b>	<b>-3%</b>



# Canadian Shipments to the U.S. and Offshore Markets

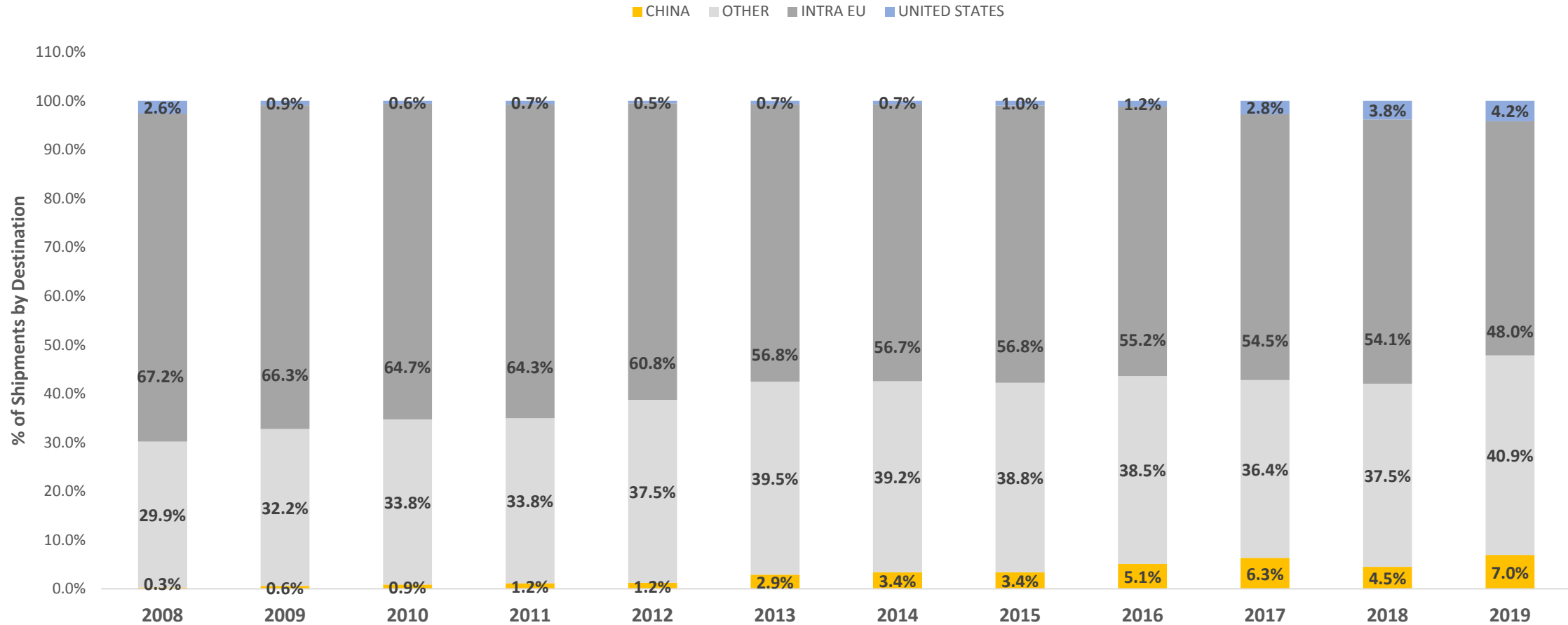


Note: Does not include Canadian domestic shipments



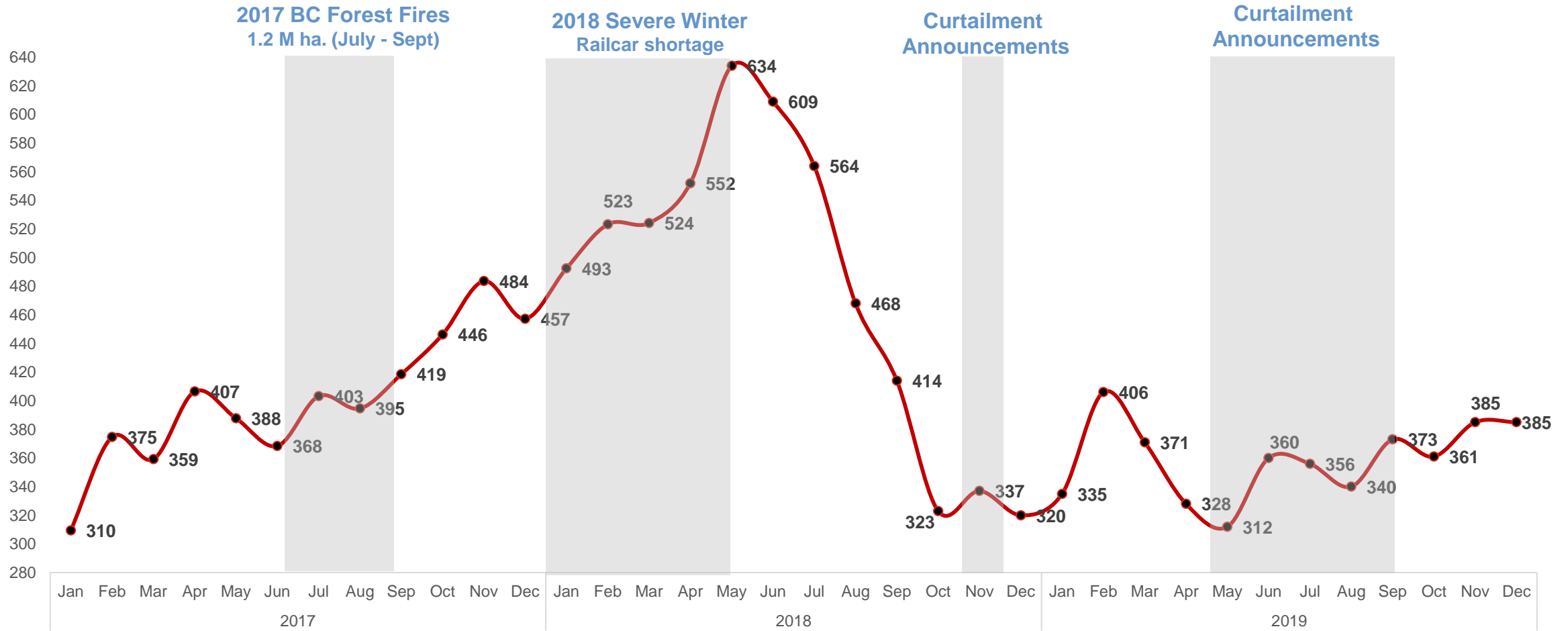
# EU Export Trends: Softwood Lumber

## EU Exports Approach 19 Bfbm in 2019



Key Producers: Austria, Germany, France, Finland, and Sweden

# W-SPF 2x4 Commodity Lumber Prices (US\$/Mfbm)

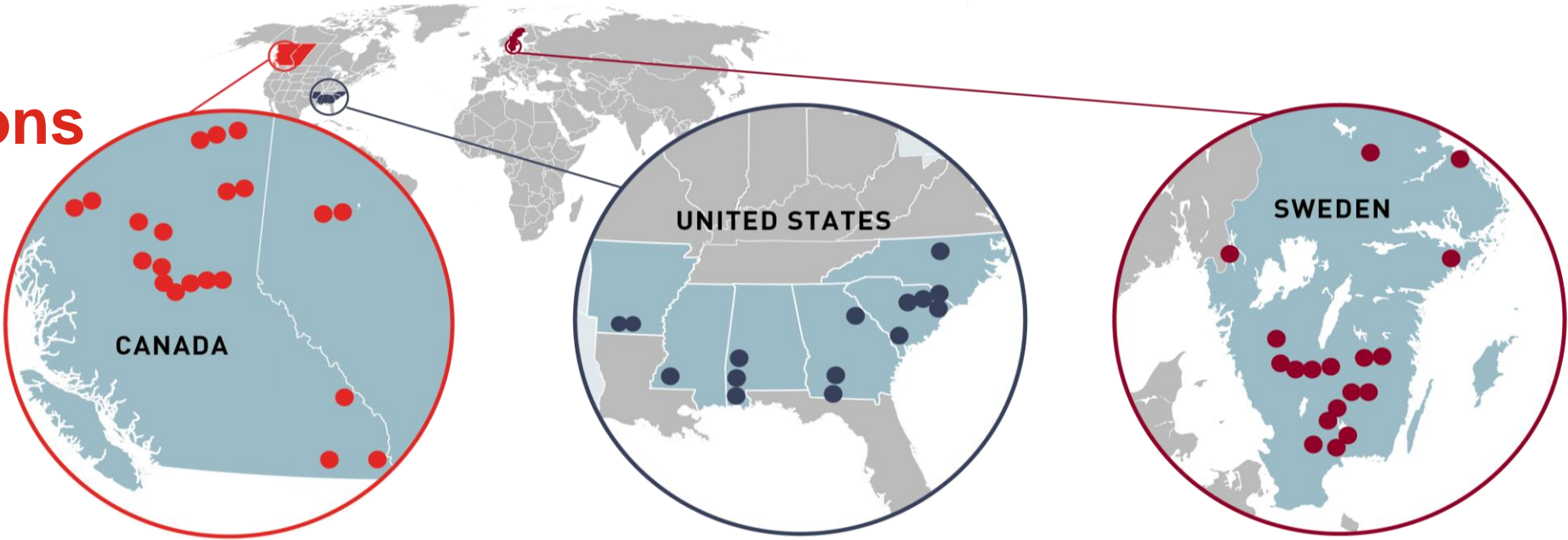




# Operations



# Canfor Operations



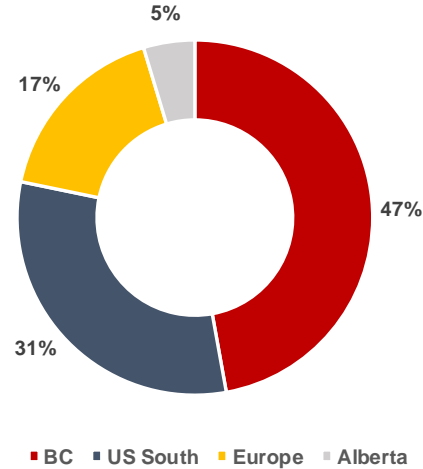
## Lumber

- **32 Sawmills** with annual operating capacity of 6,400 MMfbm
  - 11 Western Canada - 3,300 MMfbm
  - 12 US South - 2,000 MMfbm
  - 9 Sweden - 1,100 MMfbm

## Pulp and Paper

- **4 Mills** in British Columbia
  - 1.1 million tonnes of Northern Softwood Kraft
  - 230k tonnes BCTMP
  - 140k tonnes Kraft Paper

Regional Lumber Capacity



## Other Operations

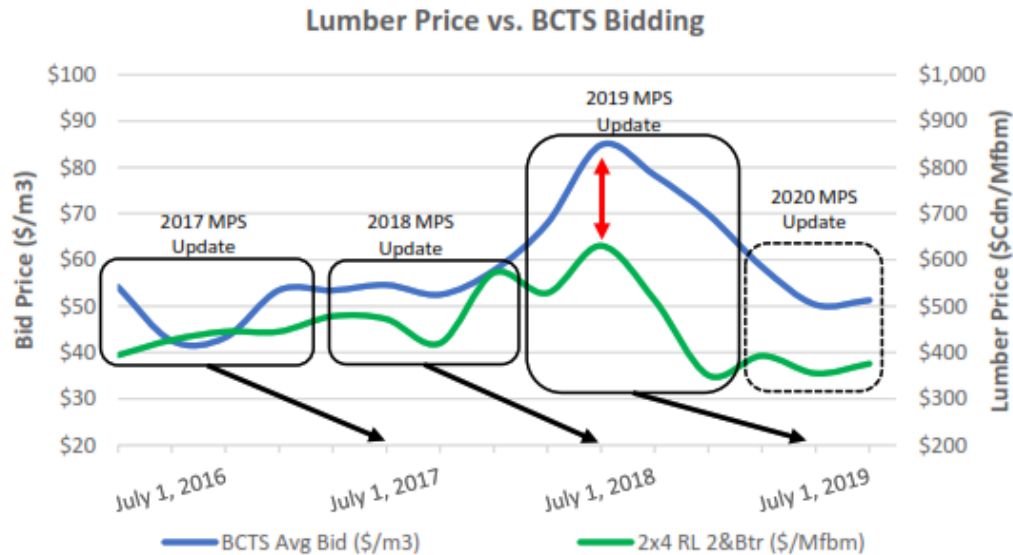
- 9 value-added facilities (packing, housing, energy) – Sweden
- 3 Pellet Plants – BC
- 2 Glulam Plants – US South
- Finger Joint Plant – US South
- Green Energy Plant – BC
- Trucking Fleet – US South



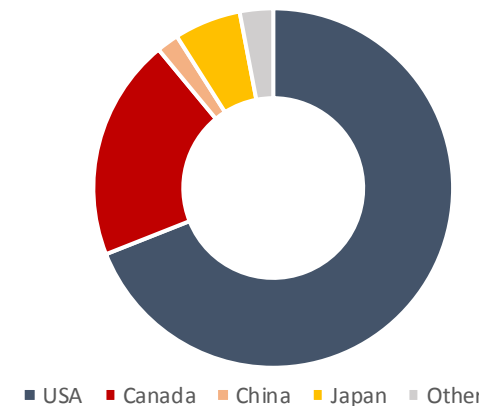


# Western Canada

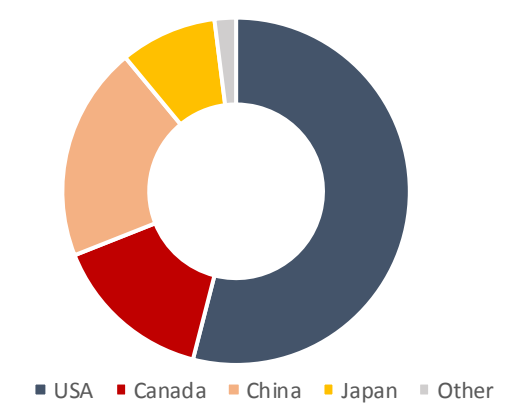
- Significant action taken in 2019 in response to challenging market conditions and escalating log costs in British Columbia
- Approx. 2.1 billion board feet of permanent industry rationalization to-date
- Estimated ~1.0 billion board feet of additional rationalization required to balance demand with long-term fibre supply
- Company has taken a number of short and long term measures to mitigate fibre cost escalation and support improved market pricing
- Remaining BC assets supported by high quality fibre and significant capital investment in recent years
- Anticipating modest reduction in log costs in 2020 reflecting impact of rationalization and lower market pricing in 2019



Canfor SPF Sales by Country - 2007

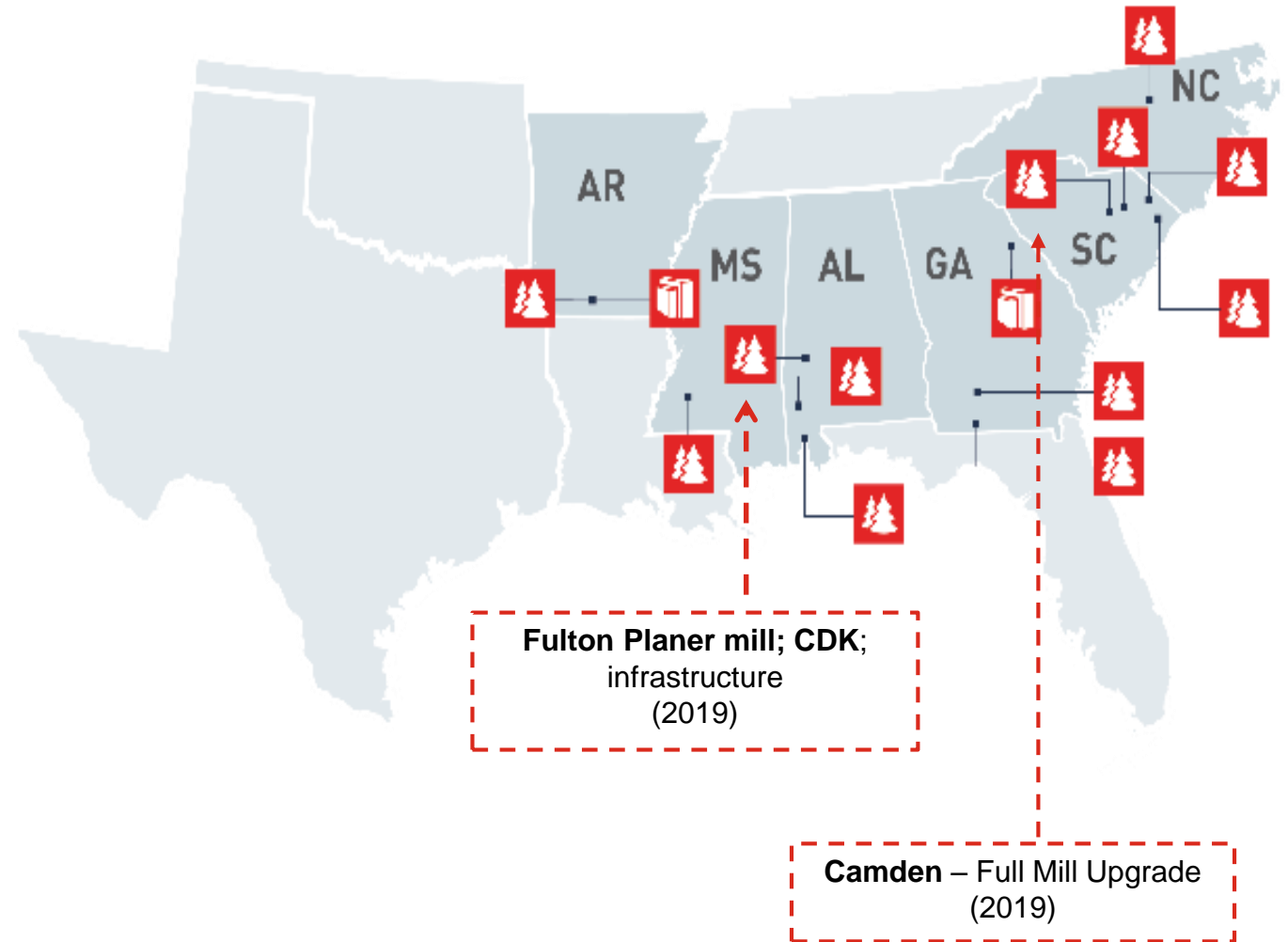


Canfor SPF Sales by Country - 2019












# US South

- Total lumber capacity of 2.0 billion board feet with full run-rate achieved in 2021
- Over 300% growth since 2013, including 2019 acquisition of Elliott Lumber Company (210 MMfbm)
- 300 MMfbm organic program (US\$125 million) largely completed towards end of 2019
- Strong fibre supply region, high performing operations
- Focus on high-value products and market diversification supporting sales realizations and strong operating margins



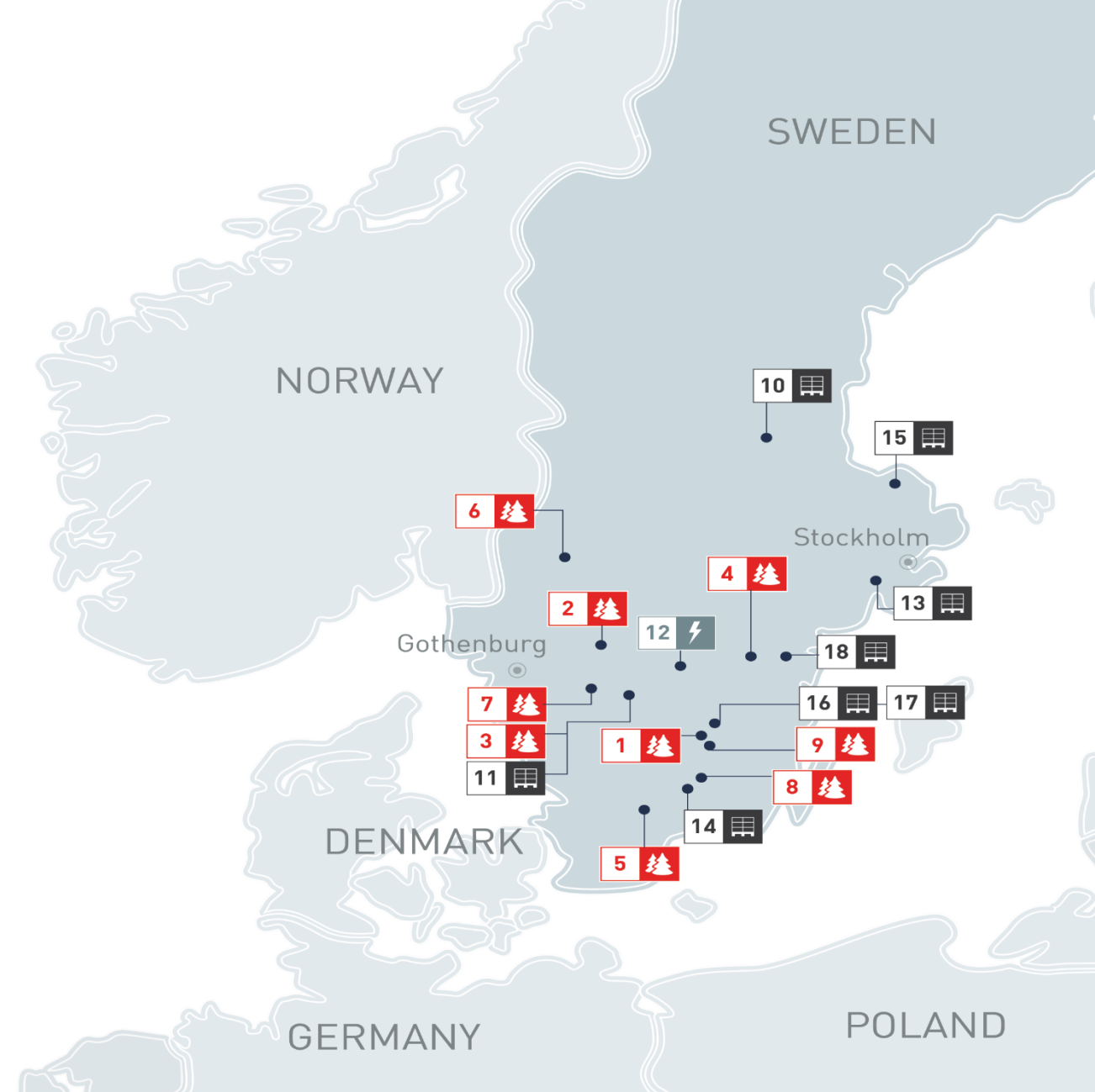
# Canfor High Value Product Diversification

## Products that unlock incremental value with stabilized pricing

 <p><b>Appearance</b></p>	<p><b>J grade &amp; Square Edge Dimension Boards, Pattern, Fascia, Clear</b></p> <p>Visual appearance is primary purchase variable</p>		
 <p><b>Application</b></p>	<p><b>SYP Long Length 22'/24'/26' SPF &amp; Spruce Metric Sizes</b></p> <p>Matching sizes to end-user requirements</p>		
 <p><b>Strength</b></p>	<p><b>MSR Dimension Lamina Blanks SYP Glulam Beams</b></p> <p>Leverage fibre strength to match demand</p>		

# Overview of VIDA

- 9 sawmills with 1.1 billion board feet of capacity
- 9 value-added facilities - premium packaging, modular housing, industrial products and energy
- Access to significant supply of high quality spruce and pine fibre in close proximity to sawmills
- Production primarily focused on structural timber, more than 90% of which is exported to markets other than North America
- Excellent management team across the company
- Canfor and VIDA are well positioned to capitalize on joint global market opportunities with significantly enhanced market and geographic diversification; currently on track to achieve targeted synergies
- Geographic and product diversification contributing to more steady pricing over the cycle



# Sweden Fibre

Sweden traditionally divided into three regions

## North

(N. Norrland & S. Norrland)

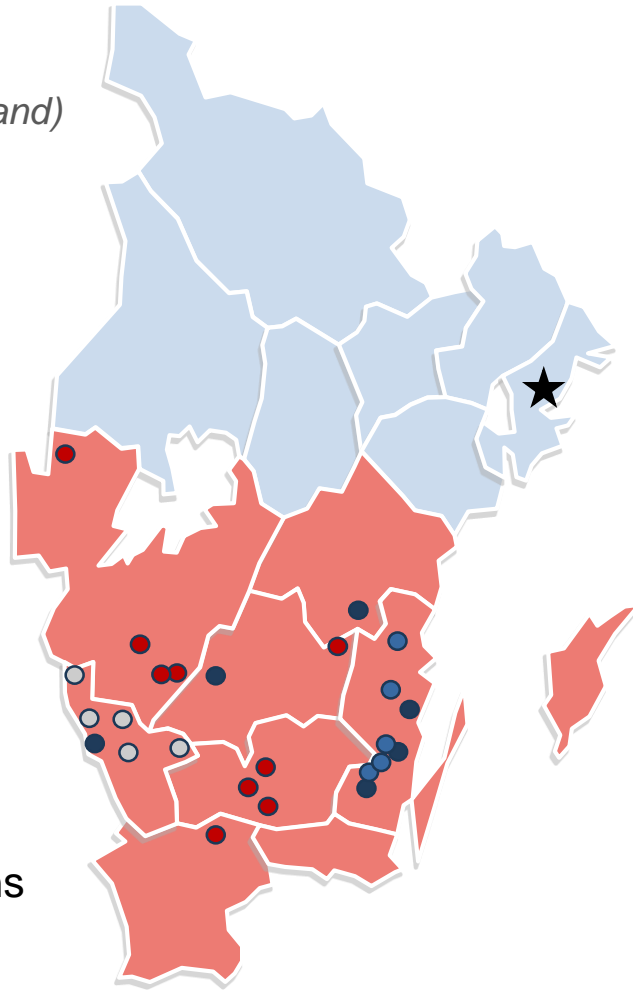
## Central

(Svealand)

## South

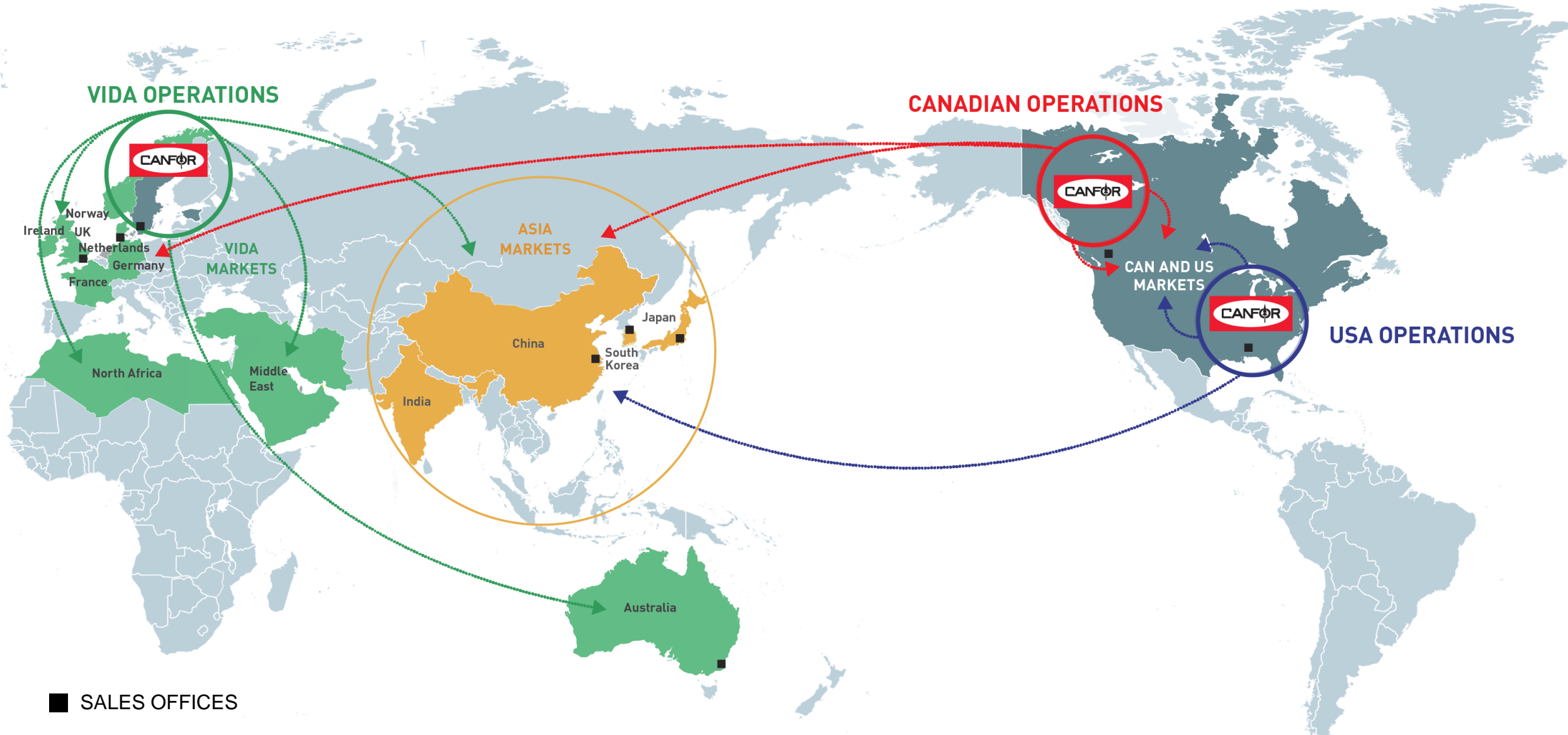
(Götaland)

- Sodra
- Derome
- Bergs Timber
- VIDA
- Operating Regions



- Three of the four large sawmillers in South Sweden operate largely in specific geographic regions, making up an estimated 60% of Götaland's softwood sawlog consumption of 13.5 million m<sup>3</sup>
- Log supply in Southern Sweden is predominantly high-quality spruce
- VIDA's purchases 100% of its fibre (largely from private individuals), leveraging technology to maximize efficiency and optimize forest utilization
- Technology improving the ability to manage log deliveries, profile and quality, ensuring the right log to the right mill
- Södra maintains a co-op of approx. 51,000 forest owners in southern Sweden, providing support for sustainable, efficient forest management
- Fibre costs tightly correlated to market pricing supporting more stable earnings

# VIDA Acquisition Enhancing Market & Product Diversification

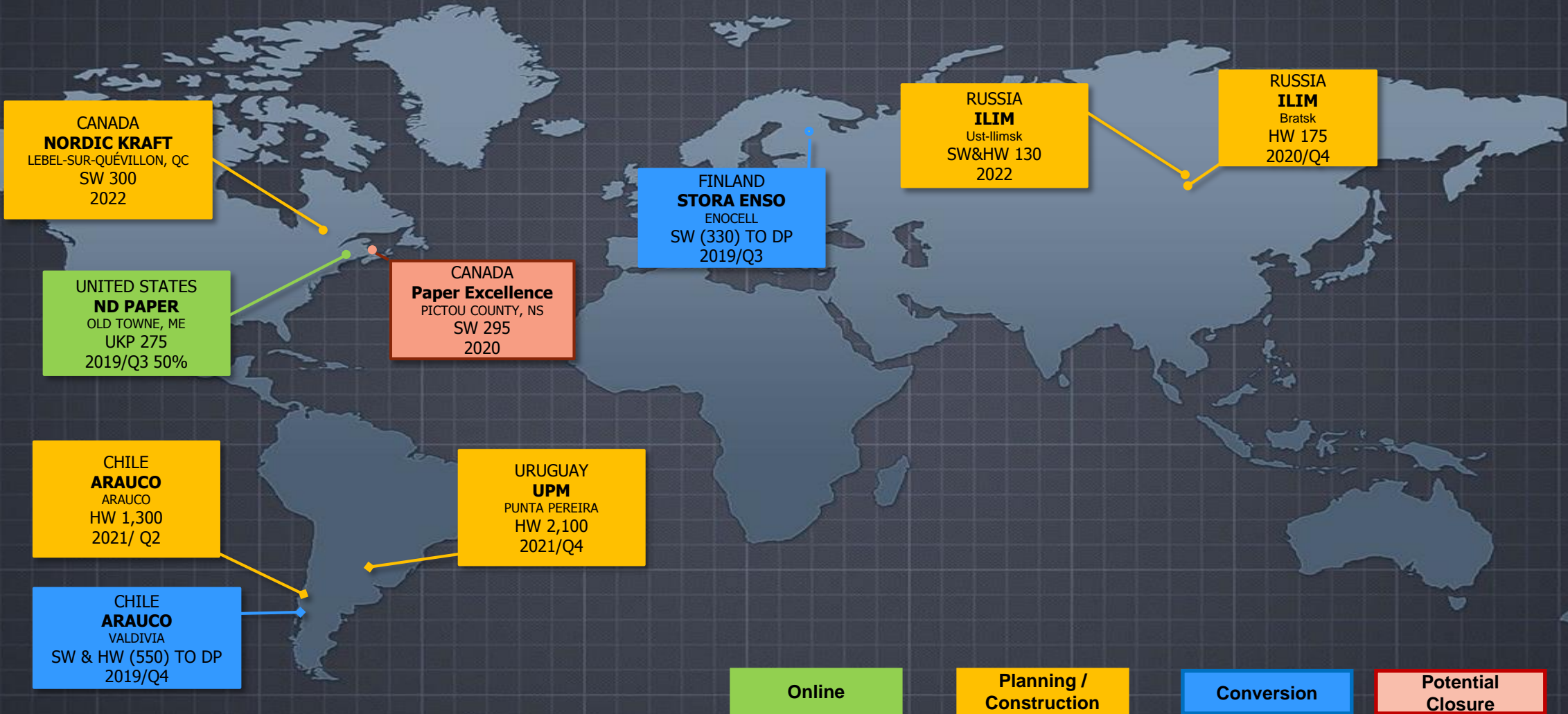


A large, stylized wood grain pattern in shades of gray, occupying the left side of the slide. The pattern consists of concentric, wavy lines that resemble the growth rings of a tree trunk.

# Canfor Pulp



# Announced Major Capacity Changes to 2019 - 2022



Source: PPPC – May 2019 and UPM update (000s tonnes)



# Pulp Market Outlook

## Supply

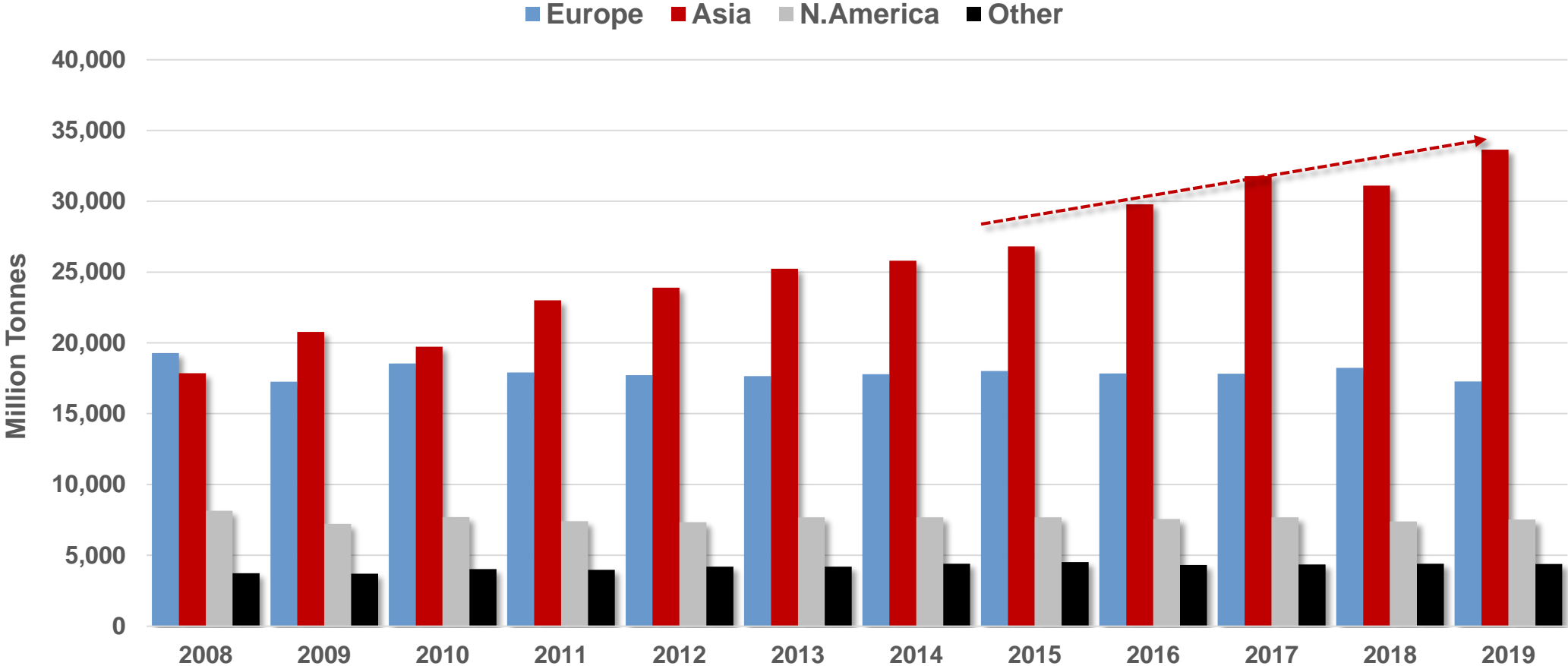
- Softwood capacity projected to drop in 2020 after conversions to dissolving pulp at Stora Enso Enocell in Sweden and Arauco Valdivia in Chile
- Very little additional pulp capacity until 2021 for either softwood or hardwood
- Recycled import restrictions continue to dramatically reduce shipments of recycled material to Asia
- Most recent project to be confirmed by PPPC is UPM – Paso de los Toros, Uruguay for 2022
- Traditional spring maintenance in Q2 2020 will reduce supply, supporting a continued reduction of excess inventories

## Demand

- PPPC projects a 2.8% increase in global demand for Market Pulp in 2019 and 4.5% increase in Softwood demand
- Improved demand in China as traders destocked in H2 2018 and restocked in 2019
- Western Europe seeing significant weakness in Printing & Writing segment
- Global Tissue demand increasing at approximately 2-3% per year
- PPPC forecasts global pulp demand/capacity balance, softwood and hardwood combined, of 89.2% in 2019 then climbing to an average of 90.0% in 2020-2022

# 2008-2019 Global Market Pulp Demand

China is the largest consumer of pulp

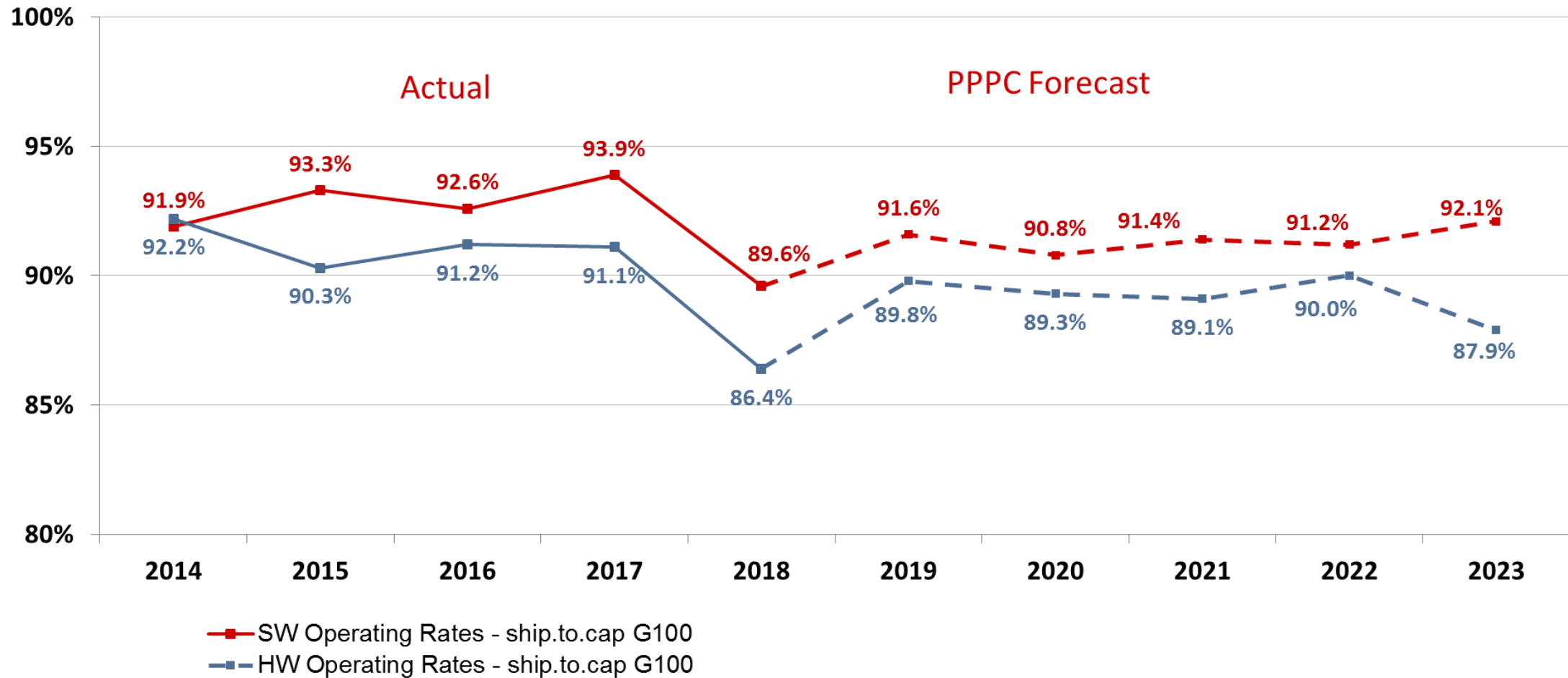


Source: PPPC



# Medium & Long Term Trend Looking Favourable

## Pulp Operating Rates



Source: PPPC - November 2019

# Canfor / Canfor Pulp – Value Proposition



**High Quality Products & Customers**

**Sustainable, High-Quality Fibre Supply**

**Well Capitalized Mills**

**Top Performing Pulp, Lumber Business**

**Balance Sheet Liquidity**



# Investor Contacts

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