

Canfor Corporation
Canfor Acquires New South Companies Inc.
January 19, 2006

Operator: Good morning, ladies and gentlemen. Welcome to the Canfor Corporation call to announce the acquisition of New South Companies. Please note that this call is being recorded for webcasting purposes and will be available at www.canfor.com. Following the discussion by Canfor management, analysts and investors are invited to ask questions. Once analysts and investors are finished, Canfor management will be available to take questions from the media. This call will include forward-looking statements, and listeners should refer back to the Canfor press release for all the caveats that carries.

With this, I'd like to turn the call over to Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation. Please go ahead, Mr. Shepherd.

Jim Shepherd: Thank you very much, Operator, and good morning to everybody. With me on the call this morning, we have Scott Wilson, Chief Financial Officer, along with Don Kayne, our Vice President of lumber and panel marketing; David Calabrigo, involved with corporate development; David Jan and Lee Coonfer. So, hopefully, we've got everybody present that can answer questions that you may have.

I should say in describing the transaction that we described in the press release late yesterday, we are dealing with a private entity in New South Companies, so we'll be as open as we can and describe what your needs are, but we'll have to keep that in mind, in terms of some of the more specific details, and that we do have some time to go forward here until this deal is finally done.

I would like to say starting that, as we look at the future of Canfor and how we've tried to position our company, an awful lot of activities, but starting with the market drivers to service the customers that we've culled in the home building sector providing the needs through wood products of lumber panels and engineered wood, very much our activity is to develop those customer relationships, get the opportunity to service their needs, and then we will find the materials and the resources to service that need. So this is what we have basically tried to do with this transaction, and it really gets us down the path of doing some of those very big divestments of our future in Canfor. As I've said, we are dedicated to providing wood products to the home builder globally and through our strategic customers. So this opportunity, in many ways, came to us, and we have responded.

So let me describe some of the facets of it. First of all, it establishes Canfor with a manufacturing base in the United States. We recognize that by-and-large our manufacturing facilities are in Western Canada, primarily British Columbia. We're very proud to be here and all the successful resources that we enjoy, but we are still risked by currency. We have a number of issues, in terms of how business is conducted north of the border, certainly in North America, and so this will somehow mitigate some of that risk, and we look very forward to working in the United States and enjoying some of the balance that will come from having facilities on the US side of the border.

The New South Company is located in the US southeast, and we see this as one of the key home building regions, not only in North America, but in the world, and so we're right in the heart of what I would say a lot of our customer locations are, and so we'll be able to better serve their needs, and already Canfor is a very, very significant supplier to a customer base in the southeastern part of the United States. Even more specifically, when we get into the South and North Carolina areas and a lot of homework has been done here on our part. We see this as one of the very key regions in the southeastern United States, and not only for a number of reasons on business climate, timber supply; again, location of our customers and home building activity as we see going forward in the future. So we're very, very comfortable with this being the starting point for Canfor with getting a manufacturing site located in North and South Carolina. And hopefully, we can use this as a learning curve and a seed for further opportunity and growth in that part of the world.

The assets themselves, we included in our press release a description of the assets. There's three saw mills, re-manufacturing facility and sort of sundry type items, in terms of treating plants, and also there's a trucking arm of New South, but in our look at this company, extremely well run, extremely well managed. Two of the mills are rated 1, 2, top quartile in the Beck survey and this is on also the margin and on their ability to generate cash. So we are, obviously, paying a fair value for top quartile assets, and the remainder of the assets are clear, very definitive plans to improve performance and an opportunity yet to be realized. So I guess the old adage, "you get what you pay for," we're getting some very good mills here and extremely well run.

Money has been reinvested in the mills. The current ownership have recognized that this is what it takes to be successful in a tough business, and so when you walk through these mills, you can see where money has been applied and how, in fact, it's been invested over the years, and again, my compliment to the group there today because they've done an awful lot of good work.

I am particularly impressed with the operational mindsets. The group looks at the business in a very similar manner to us in

Canfor. The mills are well run; they're well maintained. There's a depth of management in the company and they are very focused on margins and quality of products, and if you look at the tone of Canfor, that's exactly what we are trying to do as well, maximize the value out of each and every log, and it's a very similar mindset in New South, and I see this as a good complement to what we already do, and it fits well into what our customer is expecting from us.

The products out of New South, primarily southern yellow pine, really do complement what we are producing here in the existing Canfor through SPF, and especially for a customer base that's getting consolidated in their own right and their needs and demands are getting more largers of volume.

We're very comfortable with the timber base. These mills are located in a very productive timber-growing region of the United States. It's obviously a different system than what we have here in Canada. All the wood is bought on the open market. The typical haul distance, I think it's a radius of about 50 miles around each and every mill. We see this as a growing timber basket, and so if anything, there's an up side. In fact, we see opportunity for increased productivity, and we'll be taking advantage of that as it makes sense for us to do so. And with a very diverse ownership base for the timber, very competitive environment, we see this as a stabilizing effect on the price of timber and logs. And so a combination of volume, up side potential, cost ability, and high quality, as well. A lot of the growth is healthy growth, second growth and so forth. So we see this as very positive for this timely acquisition on our part and are very comfortable with it.

I would say that there is a trucking arm. It's been a successful part of the New South operation. A lot of the customers, again, are within easy driving distance of these mills and a big part of the value for us looking at New South was to build on our many reload facilities that we have in that part of the Carolina's and in the southeastern United States, and we see an awful lot of opportunity on the supply chain getting wood from Canfor reloads, New South mill locations and to the customers that are, again, very easily accessible in this region of the world. And, so, we expect to see improved service to our customers and timely deliveries of products.

I just make a brief comment here on the management of New South, and I know every time you grow a family, there's always the uncertainty what it brings. I will start with Mack Singleton. I am very impressed with what Mack has done in New South. It's a very committed group of individuals to run New South. My sense is that there's a real personality fit between us and them in the way they look at the business, the way they have passion for the business, and the way they feel about the future. And my hope is that we can use this opportunity in Canfor to look at the opportunities down the road and do it wisely, do it timely, but build the business and again, the most

productive timber growing region in the United States and the best market that we see in the world. So, I am very much looking forward to working with the New South group.

A part of this transaction which is a subtlety here but very, very key to us and that was the tie to the New South international arm and the Klausner connection. For anyone who isn't familiar with the Klausner group of mills in the central part of Europe, this is a very, very quickly growing company. A fourth mill is being built as we speak that will bring the production capacity of the Klausner group of mills up to 2.5 billion board feet on an annual (sp?) basis. This is high-quality spruce, and so very important to us is to build on that relationship. We have, of course, over the years in Canfor built a profile of customer needs and some of those needs have a wide variety of product sizes and so forth, whether it's in the home centre or the pro dealer or some of our bigger customers building homes directly. But the Klausner group has been a big supply for Canfor to fill in the gaps; to fill in the sizes and the volume needs that we haven't been able to supply out of our Canadian mills, and so for a number of years, we have bought lumber through the New South Company, but have built a very good relationship with Fritz Klausner and his group over in Europe, and I'm very excited about how we can build and grow on that relationship, not only in North America, but some of our customer needs in Asia, as well.

So this to me brings into Canfor a manufacturing base, a seed for growth, an opportunity to learn the business in a different part of the world, in the best market in the world, and added to that is building a relationship with what I see is the lowest cost and a very, very well-managed lumber producer in Europe; Klausner. And just to give you a sense of what they have done, the three mills that are currently operating are of size and magnitude to our Vanderhoof or Houston mill in Northern B.C., which we always talked about as being a high-end volume producing, low-cost facility in North American terms. And, so, their mindset, their operational mode, again, fits very well with Canfor. So not only will we have the European, the southern yellow pine to add into the Canadian product mix, but we will have three organizations that think of the market in a similar vein. So I'm very excited about this, and I look forward to moving forward on that basis.

I thought Scott Wilson could just take a few moments and talk about some of the financial metrics here. Very briefly, again, this is a private company, so we'll be somewhat sensitive to the information that's being disclosed here, and then I'd like to open it up for any questions. So, Scott?

Scott Wilson: Okay thanks, Jim. Just a couple of quick points. First of all, we'll be financing this acquisition out of our cash balances. Secondly, with respect to valuation, as with all of the investment decisions that we make, and we took you through some of this thinking on the Q3 conference call, but we do use

a pretty rigorous discounted cash flow approach, and using risk adjustment discount rates to ensure that we're appropriately capturing the unique transaction risks and taking a reasonably conservative view of future cash flows, and that's what we've done here. So, without including any of the potential synergies, we satisfied ourselves that the price that we are paying here is one which represents good value, and as several analysts have commented already, that assets of this quality should command the value that we're paying. We do anticipate that the transaction will be accretive to our book earnings immediately.

And finally, we're also satisfied that the enterprise value to EBITDA metrics that you see here of something in the range of 5.7 times pre-synergies compares favorably with recent transaction multiples, and that the synergies that we do expect to realize over time will only enhance the valuation. That's it, Jim.

Jim Shepherd: Okay. Well, thank you, Scott, and Operator; I'd now like to open it up for questions.

Operator: Thank you, sir. We'll now take questions from analysts and investors. If you have any questions, please, at this time press *, 1 on your telephone keypad. If you would like to withdraw your question, press *, then the number 2 on your telephone keypad.

We'll pause for just a moment to compile the Q&A roster. Your first question is from the line of Chris Willis of Impala. That question was withdrawn. Your next question comes from Daryl Swetlishoff of Raymond James.

Daryl Swetlishoff: Oh, thank you. Jim, I was wondering if you could just talk a bit more about just two key items, one being fiber supply. Will the management team that was responsible for fiber in the mill stay on? And the second question, if you could just discuss just the workforce, in general, and how that might compare to some of your existing operations in the B.C. interior?

Jim Shepherd: Sure. First of all, the manage group, our expectation is that they will stay including the group that's been responsible to buy the fiber. I'm very impressed. You know, the knowledge bank is deep and historic there. They have very good knowledge that really transcends almost the whole sort of area that we've talked about in the Carolina's and over the border, and places like Virginia and Georgia. So, you know, they know their business and they expect to stay, and we expect to work with them going forward.

In terms of the workforce, I'm not sure if I can answer everything you're implying in the question. It's a completely non-union workforce. It's a group that has, you know, I think a longevity meaning a lot of the employees there are long term. There is an expertise in operations and so forth.

I think Canfor can bring in some additional talents, maybe in some of the optimizations and some of the sort of the value chain that we can put in to looking at the breakdowns and some of the many measures that we use in Canfor. So my hope is, and I think it's clear that we don't have all the answers here, is that we can take some of the mindsets and technology and the practices in Canfor and apply it to what's happening in New South. We want to be careful that we don't do something that messes up what's already a good operation. I think it sort of means being very careful on that, and of course, log supply is different; the quality of the timber is different, so we do have a learning curve here, but we do have resources, hopefully, that will build on what they already do.

Daryl Swetlishoff: Okay. Thanks for that. Just a follow-up on the fiber. So, currently 100% of the mill fiber is purchased on the open market, and there don't exist any long-term fiber supply agreements with anyone or a number of timber sources?

Jim Shepherd: No. We're not locked into anything. It's quite a fluid thing.

Daryl Swetlishoff: Okay. Thanks for that.

Jim Shepherd: Okay.

Operator: Your next question comes from the line of Mark Bishop of RBC Capital Markets.

Mark Bishop: Thanks. Good morning. Jim, just a question on the customer profile of New South. Does it match your own or does it have more emphasis on one area in terms of the big box or home builders? And a follow-up after that.

Jim Shepherd: I'm going to have Don Kayne just give a little bit of detail on that. It's extremely complementary to us. It very much matches what we do now. Don, can you just comment for Mark?

Don Kayne: Sure. Yeah, Mark, you know basically, it's completely complementary, as Jim says. While the customer base is very similar, the New South operation is primarily focused on the treated side of the business as well as the truss side of the business. So we feel in both cases, while we participate in both of those businesses, this gives us another opportunity through a different specie to just to broaden our product mix with our strategic customers.

Mark Bishop: And on the treated front, is that – the actual treating facilities, I guess that is a new business for you. Is that also a business you could foresee growing in, I guess, given that southern yellow pine does supply

into that market significantly? But the actual treating activities, is that something that you could see growing over time?

Jim Shepherd: Well, it's a yes and no. I mean, we're excited to be in it, but I guess it's one of those things we're going to have to learn more about. Right now, treating comes with the New South Companies so we're into it. Southern yellow pine, as already stated, it's very conducive to treating and the (inaudible) structural part of it. So, I think for me we'll see how we go forward here, but as Don said, this currently complements the customer mix that we have and so we see this as a good business.

Mark Bishop: Great. And just question on the Klausner relationship. Could you characterize, I guess, the combined now - between New South and Canfor - the amount of Klausner lumber that you're bringing into North America? Would it rank as number one against any of other Klausner's relationships in North America and sort of by how much?

Jim Shepherd: Yeah. I think the anticipated volume going forward here at this point is about 500 million board feet at this point in time but, again, Klausner is building a brand new mill specifically designed for the North American marketplace. And so, I know we have - and there's our customer base - as our customer base grows, not only in eastern North America but also in Asia, we see a growing volume of Klausner going forward.

Mark Bishop: Mm hmm, okay. Thanks very much.

Jim Shepherd: You're welcome.

Operator: Your next question comes from the line of Chris Willis of Impala Management.

Chris Willis: Good morning. I got disconnected there, so I apologize if I'm repeating a question that might have been already asked. I just was curious, can you talk - you've mentioned, I guess, two of the mills are top quartile. Can you mention just any comments you might be able to on the third mill? Does it require capital to get its cost base down or how are you thinking about that mill? And, then, if you could talk a little bit about, you know, where the \$10 million in synergies are coming from, and I think I could hear some of the areas just based on your former remarks, but if you could comment on those questions? And if you've already answered those, I'm happy to do it off-line at a later time. Thank you.

Jim Shepherd: No, we haven't, Chris. I'll give it my best shot here and then, of course, you can always call back; I'd like to talk to you about this. Well, the third mill, it's got a new planer mill and it's got some - it needed upgrading in the break down line in the sawmill itself. We're not talking

significant capital. I mean, well south of \$10 million here, and I know the management of New South have weighed that as to when the right timing to put it in. So we're not talking big, big dollars in maybe some of the more traditional terms, but to me some money will have to be spent going forward.

In terms of the synergies, we talked about – this is mainly in the supply chain. Yes, delivery of products and how we can better manage our resources there but I think in the sawmilling business, when you take a log, a lot of your cost structure is built around the recovery side, sort of the value of the product you come out of it. So you want to maximize recovery; you want to maximize the quality of the lumber coming out of that log and if you have certain size mixes, you compromise that because, you know, you need 10-foot lengths as opposed to the best management of the log is a 12-foot length. So what we can do in Canfor is really get a very good length dimension mix out of Canfor, improve on what we're already doing, and for those where we're short, we can fill in the gap either from the New South or the Klausner relationship. So some of what I'm talking about comes from there.

Chris Willis: Great. Thank you.

Jim Shepherd: You're welcome.

Operator: Once again, if you are an analyst or investor and would like to ask a question, please press *, then the number 1 on your telephone keypad at this time. There are no further questions registered from analysts and investors at this time. We will now take questions from the media. If you do have a question, please press *, then the number 1 on your telephone keypad at this time.

We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Gordon Hoekstra of Prince George Citizen.

Gord Hoekstra: Oh, good morning, gentlemen. I apologize. I just missed the very beginning few minutes of the call. Jim, can you just comment a little bit on the general strategy behind this acquisition? You know, what's the thinking and what do you hope to gain out of it?

Jim Shepherd: Well overall, if we sort of go back to the fundamentals of our approach to business, it's developing a very strong relationship with very strategic customers and making sure that we can provide them with the products that they need for their business. So we have the home builder, obviously; we have the retail outlets such as the Home Depots and so forth. And, so, with the current products that we have in Canfor, we're limited to growth. We've sort of got what we've got and customers are growing and they're asking Canfor to grow with them. So the fundamental driver – excuse me – the fundamental driver here

is to allow us to be a better provider of product needs for them, the customer. And so that's what drives the initial reason for this particular deal.

Beyond that, when you have all your eggs primarily in one basket, meaning here in British Columbia, you know, we're subjected to all the risks that go with that. There's timber pricing; there's the softwood lumber deal; there is the currency risk; there's all these things. And, so, part of our motive here is to broaden our geographic diversity, mitigate the risks somewhat and all in the complement to providing those products the customers are asking for.

Gord Hoekstra: And do you have plans to continue to sort of pursue that strategy of, you know, diversifying your holdings?

Jim Shepherd: Absolutely.

Gord Hoekstra: Do you have – and are you looking at any particular areas; are you focusing at the US for now or are there other you know...?

Jim Shepherd: Well, we have primarily focused on North America. I think it's safe to say that the last couple of years, they've been very much focused on Canfor, looking at the mills, looking at the opportunities. You know we've made a lot of changes in the company. So North America is common sense for us because of its proximity to Canfor, and no matter where you go outside of British Columbia or western Canada, there's a learning curve here. So we recognize that a lot of our effort now has to go into understanding the business and making sure that we are truly getting the value that we need to get to justify the purchase price. So there will be a learning curve for us. So we'll sort of take it one step at a time and the further afield we go, the tougher it will be. So North America makes sense for us.

Gord Hoekstra: A question on the ownership of New South. Obviously, Mack Singleton has been quite heavily involved in the Coalition for Fair Lumber Imports; I think at one time he was the chairman. And, you know, you have West Fraser has acquired some US southern mills, as well. You know, the fact that Canadian companies are acquiring US South Companies and working together and getting to know each other, is that going to have any impact on the softwood dispute, you think?

Jim Shepherd: I'm not sure on the near term, and I would be – I'd be unsure just what it might do even in the current realm of where we are, but longer term, obviously, the better understanding of each industry and how it works and the fact that we really truly have a North American market, not a Canadian and US market, I think it can only help and I look forward to having a better understanding from a US perspective as to where they see this whole thing

going, but I would be reluctant to say that it'll have any big impact on the current dispute.

Gord Hoekstra: Thank you.

Operator: Once again, as a reminder, if you are with the media and you do have a question, please press *, then the number 1 on your telephone keypad at this time.

There are no further questions in the queue at this time. I would like to turn the meeting back over to Mr. Shepherd.

Jim Shepherd: Well, I appreciate you taking the time this morning. I know it was very late notice and there may be other questions, so please give us a call, and we'll be very pleased to take you through it. So, I thank everybody this morning, and thank you, Operator.

Operator: Thank you, sir. Ladies and gentlemen, that concludes today's conference call. You may now disconnect.