



Canfor Corporation

First Quarter 2020 Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Canfor and Canfor Pulp First Quarter Analyst Call. A recording and transcript of the call will be available on Canfor's website.

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 now would like to turn the meeting over to Mr. Don Kayne, Canfor and Canfor Pulp's Chief Executive Officer. Please go ahead, Mr. Kayne.

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Thank you, operator, and good morning. Thank you for joining the Canfor and Canfor Pulp Q1 2020 results conference call. I will make a few comments before I turn things over to Alan Nicholl, Executive VP of Canfor Pulp Operations and Chief Financial Officer of Canfor Corporation and Canfor Pulp. Alan will provide a more detailed overview of our performance in Q1 as well as the numerous initiatives underway to mitigate the financial impacts of this downturn.

I would like to start by thanking our incredible employees who are dealing with the unprecedented challenges of the COVID-19 pandemic with perseverance, resilience, and an unfailing dedication to health and safety, while at the same time focusing on executing on our strategy. In the last several weeks, our

organization has been almost exclusively focused on our COVID-19 response. Our top two priorities are protecting the health of our employees and executing on our strategy to sustain the business for the long term.

In terms of our people, we quickly implemented a COVID-19 action plan, which has continued to evolve. This plan includes implementing physical distancing measures, including at our facilities, having as many employees as possible work from home, restricting all travel, implementing cleaning and hand-washing protocols, and implementing self-isolation and quarantine policies. As a result of the pandemic, we have had to take extended downtime across all of our operating regions with our sawmills in British Columbia impacted the most. These are very difficult decisions, as we know they are having a significant impact on our employees, contractors, communities, and customers, which we deeply regret. Across our organization, our employees are making a number of very difficult sacrifices to ensure we are removing as many discretionary costs as possible. I also want to thank the federal and provincial governments who have provided additional support at this difficult time.

Turning to our markets and beginning with lumber, the Company anticipates conditions will remain extremely volatile and challenging through the second quarter. Global lumber market demand in recent weeks has declined sharply in the wake of the closures of nonessential businesses and lockdowns implemented in many parts of North America and Europe. The Company currently anticipates that North American home construction activity will remain at reduced levels with significant regional demand volatility.

Following a steep reduction in pricing from mid-March through early April, prices have stabilized somewhat in response to a material reduction in supply in recent weeks. We are anticipating that the second quarter will have limited demand, particularly for April and early May. Looking further ahead to the second half of 2020, it is anticipated that supply and demand balance will improve and support a modest improvement in prices later in the year.

Lumber prices to China are seeing more moderate declines than North America, as that region is gradually returning to more normal business conditions following the early outbreak of the COVID-19 pandemic, while short-term prices to Japan are anticipated to be in line for the current quarter. European lumber markets and pricing are also being materially impacted by aforementioned global economic downturn and the Company currently anticipates market conditions are expected to remain challenging through the second quarter before improving later in the year.

Global softwood pulp demand is currently projected to be solid through the second quarter of 2020, particularly from China, as that region continues to gradually recover from the pandemic, while containment measures across Western Europe and North America are forecast to weigh on market demand for printing and writing paper. While pulp and paper operations are designated as essential services in many regions, it is projected that supply disruptions will continue in various regions as a result of the pronounced effects from COVID-19 on various business sectors, including lumber manufacturers. The current weakness in lumber markets is resulting in numerous sawmill curtailments in the BC interior and lower volumes of sawmill residual chips available to pulp mills, so this brings with it the risk of additional downtime at not only the Company's operations, but also across the industry.

And with that, I will turn it over to Alan to talk about the quarter and some of the initiatives that we have underway to enhance our already sold liquidity position.

Alan Nicholl — Executive Vice President, Canfor Pulp Operations & Chief Financial Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Thank you, Don, and good morning, everyone.

The Canfor and Canfor Pulp quarterly results were released Wednesday afternoon and come together with our overview slide presentation in the Investor Relations section of our respective Company's websites. In my comments this morning, I will speak briefly to quarterly financial highlights and expand, as Don mentioned, on a number of initiatives that the Company has put into place in response to the COVID-19 pandemic, a brief summary of which is included in our overview slide presentation.

Our lumber segment reported an operating loss of \$89 million for the first quarter of 2020 compared to an operating loss of \$27 million for the previous quarter. Results included a net duty expense of \$44 million and a \$63 million inventory write-down provision that reflected a steep decline in lumber prices towards the end of the quarter and into early April. After adjusting for these items, the lumber segment generated operating income of \$19 million.

Lumber segment results benefited from moderately higher sales realizations in North America, reflecting strong US housing activity earlier in the quarter as well as continued solid results generated by the Company's European operations at an annualized rate of \$90 million in the quarter. However, as Don mentioned, these positives were overshadowed by the rapid deterioration in global lumber market

conditions in March as the effects of COVID-19 spread globally, resulting in significant price declines thereafter.

Our pulp business reported operating income of \$6 million for the first quarter compared to an operating loss of \$24 million reported in the previous quarter. Results for the current quarter reflected a solid operating performance as well as an \$11 million recovery of a previously recorded inventory write-down provision. Pulp shipments were up 9% in the quarter, reflecting a 4% increase in pulp production as well as a modest improvement in purchasing from China, particularly for tissue. Pulp unit manufacturing costs reflected this improved productivity and slightly lower fibre costs in the quarter.

As Don mentioned, in response to the unprecedented challenges presented by COVID-19, the Company has undertaken a series of measures to mitigate the financial impacts from deteriorating global lumber demand. These included extensive capacity reductions across all our operations, reduced capital spend for both the lumber and pulp businesses, as well as numerous initiatives put into place to support both Companies' financial positions through the pandemic.

At the end of the first quarter, Canfor excluding Canfor Pulp had net debt of approximately \$1 billion and available liquidity of approximately \$400 million. Canfor Pulp ended the first quarter with net debt of \$43 million with available liquidity of approximately \$100 million. Looking ahead, Canfor's cash flow is forecast to benefit from a seasonal reduction of working capital in the second quarter and the receipt of approximately \$125 million of tax refunds over the balance of 2020. This combined with the reduced capital spending and the suspension of all nonessential overhead will improve the Company's liquidity and help preserve its solid balance sheet position.

For our pulp business, recognizing the material challenges facing the global economy and the supply disruptions resulting from the extensive sawmill downtime that Don mentioned, Canfor Pulp's Board of Directors have decided to suspend the quarterly dividend for the foreseeable future as part of its cash preservation efforts.

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

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Thanks, Alan. Operator, we're now prepared to answer any questions that the analysts may have.

Q & A

Operator

Thank you. We will now take questions from financial analysts. If you have a question, please press star one on your telephone keypad. If you are using a speakerphone, please lift your receiver and then press star one. If at any time you wish to cancel your question, please press star two. Please press star one 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 comes from Hamir Patel from CIBC Capital Markets. Please go ahead.

Hamir Patel — Analyst, CIBC Capital Markets

Good morning.

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Good morning, Hamir.

Hamir Patel — Analyst, CIBC Capital Markets

Don, we've seen Alberta give a six-month interest-free deferral of stumpage dues. Are you seeing any signs that BC may implement a similar program?

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Thanks, Hamir. We're looking at several opportunities in British Columbia on the stumpage side. Clearly, that would be one of the options and alternatives that we are looking at and have had conversations about. So, it's a little too early to tell you the result of that yet, but hopefully we will see some positive responses on a few issues and possibly that one as well.

Hamir Patel — Analyst, CIBC Capital Markets

Great. And Don, can you give us a sense as to what you are seeing in the repair and remodel channel? It seems like perhaps that's maybe held up the best. And if you can just remind us how the pricing mechanism works for that book of business.

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Yes, for sure, Hamir, and you're accurate there for sure. I mean the R&R business has been surprisingly resilient. It's a bit regionally based though, I will say, so it's not all over North America, but certainly there are areas where it's really done well. From our own standpoint, it's up about 20% quarter over quarter, so pretty significant. And so if there's one area that we're pleased with and feel good about, it is that whole R&R side. And, at this stage at least, we think that should continue going forward. We've heard some pretty positive results there from some of our customers in that DIY space, so definitely a decent looking picture there.

In terms of the pricing mechanism there, I think pretty much everybody is the same, we just have an agreed upon premium that we have over and above the random length prices to reflect the high-quality product and the merchandising that we have to do for those products and it reflects a significant premium as a result of that.

Hamir Patel — Analyst, CIBC Capital Markets

Okay. Great. Thanks, Don. That's helpful.

Alan, I was wondering if, in the financials in the COVID-19 risk section, there was some mention that, depending on the duration and intensity of the pandemic, it could affect the valuation of your long-lived assets. How should we think about the conditions that would cause write-downs of your mill carrying values?

Alan Nicholl — Executive Vice President, Canfor Pulp Operations & Chief Financial Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Good morning, Hamir. I think what you saw in that section really is what would typically be expected in the risk and uncertainties area. I think for now we're not concerned about that, but clearly, if the situation were to unfold that our mills were down for significantly longer and we had to, in some cases, indefinitely idle the mills, then those would be the sorts of trigger events that would clearly warrant us to have a closer look at potential impairment. It's not something today that we're particularly concerned about; it's just more that we put it in as part of that standard disclosure.

Hamir Patel — Analyst, CIBC Capital Markets

Okay. Great. And Alan, what's your sense as to the absolute bare bones CapEx of the business if we did have a prolonged period of weak markets?

Alan Nicholl — Executive Vice President, Canfor Pulp Operations & Chief Financial Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Again, a fair question, Hamir. I think what we are guiding to for 2020 is probably close to bare bones. I think we could maybe shave a little bit off in terms of our lumber business, although my operating colleagues would probably take issue with that, but I think we could probably take a little bit off that. But I think what we've got in there today, which is close to \$65 million for lumber and \$25 million for pulp, is pretty much close to the bottom.

Hamir Patel — Analyst, CIBC Capital Markets

Great. That's all I had. Thanks.

Operator

Thank you. The next question comes from Sean Steuart from TD Securities. Please go ahead.

Sean Steuart — Analyst, TD Securities

Thanks. Good morning everyone. A couple questions. I mean you're expressing, I guess, confidence in your liquidity position. A couple of your competitors did expand available liquidity, one of them heading into the pandemic and one of them more recently. Are you guys pursuing any initiatives to further boost liquidity with additional borrowing capacity? And more generally speaking, can you speak to comfort on your covenant headroom as we go through the next few quarters?

Alan Nicholl — Executive Vice President, Canfor Pulp Operations & Chief Financial Officer, Canfor Corporation & Canfor Pulp Products, Inc.

For sure, Sean. Good morning. I think, as I said in my opening comments, we feel that we have ample liquidity here to see us through this pandemic impact. Today I think we're guiding to north of \$450 million of liquidity by the end of the second quarter, clearly contingent upon certain things materializing as we expect them to. But at the same time, we are looking at a couple of near-term opportunities just to top up our liquidity and give us a little bit more of an extra cushion, if you will, and so we hope to have new and updates on that before we get to the end of this quarter.

Sean Steuart — Analyst, TD Securities

Okay. And then I suppose one of the other bright spots or relative bright spots for lumber demand is Asia right now. Can you give us a sense, over the next couple quarters, how much incremental Western Canadian volume you think you can move into Asia? And maybe the better way to ask it is what was the percentage of volume heading there prior to the pandemic and how do you think that can trend into the summer?

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Yeah, for sure.

I'll talk about Japan. That's been consistent, Sean. We went into the year strong in the quarter and we were basically sold out through the second quarter. And based on production levels and whatnot, we're pretty, at this point anyway, we're confident that Japan will continue to be relatively flat. Most of the business that we have in Japan is with a similar customer base and mostly end users and so it is pretty consistent. Notwithstanding that there are some elevated concerns in Japan around COVID-19, as you will be aware of, and so we're watching that very closely, but at this time, you know, the one thing about Japan is you normally have a fairly solid order file that normally extends out there quite a long ways compared to other markets. So that's, from our standpoint, we're pretty comfortable there with Japan, but watching it closely.

In terms of China, that has been, again, another positive surprise, as you articulated. Business, you know, going into the year, we would have expected that we would have done in the neighbourhood of 20% to 25% of our business there. They have been much more active now with their recovery from COVID-19. So I heard of others and maybe even to a greater degree than ourselves, but if you use 25% as a base,

I think it's reasonable to expect that we could get, we could increase another 10% if we chose to. So it is, in one way, a bit of a back stop, but it also is a bit of an additional opportunity to insure ourselves against additional weakness in North America.

Sean Steuart — Analyst, TD Securities

Great. Thanks, Don. I will get back in the queue.

Operator

Thank you. The next question comes from Mark Wilde from BMO. Please go ahead.

Mark Wilde — Analyst, BMO Capital Markets

Good morning, Don. Good morning, Alan.

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Good morning, Mark.

Alan Nicholl — Executive Vice President, Canfor Pulp Operations & Chief Financial Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Good morning, Mark.

Mark Wilde — Analyst, BMO Capital Markets

Just to start off, I wondered, Don or Alan, any update to the kind of Q2 production schedules that you've put out there?

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

I think maybe, Alan, I'll just touch on that here and you can talk about pulp as well. But in terms of on the lumber side, clearly we're watching it real closely. I know that you're referring probably to the announcements we made up until May 1 and what's going to happen beyond that. Currently, we're watching it very closely. I think I alluded in early part of the conversation here that we're seeing some areas that are a bit better than what we would expect, but the decisions around that, we haven't made them yet. We are looking at, hopefully and possibly, making a couple of adjustments there going forward. But, as you can appreciate it, it's extremely dynamic and we want to make sure that, if we make a decision, that we've got some sustainability there too in terms of increasing that.

A couple of quick things maybe on that, Mark, that you might find helpful here is that, first of all, right now the supply and demand is extremely sensitive and we're watching that carefully also, because we don't want to tip it in the wrong direction there. Our internal analysis and analytics that we do is that we figure that 2020 demand overall will be down about six billion feet. That's what our numbers show us as a result of the COVID-19. On the supply side though, we think there are corresponding decreases there that's going to be probably pretty close to that, if not a bit more than that, but certainly in that neighborhood as well. So we figure, you know, over the next month, two, three here, that we're going to be in relative balance, so to speak, so that's why we're taking a very cautious approach here in terms of

when and if to increase production levels. But certainly it is something that we're looking at on a daily and weekly basis.

Mark Wilde — Analyst, BMO Capital Markets

That's helpful. Very helpful. I wondered, Alan, do you want to say anything about the pulp side?

Alan Nicholl — Executive Vice President, Canfor Pulp Operations & Chief Financial Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Just to add to that, so I think, as Don outlined in his comments, clearly the pulp business is very much dependent on sawmill operating rates and so clearly we're not immune from some of the challenges that we've seen impacting sawmills, particularly in BC, and so we're tracking that very closely. I think we guided to the downtime at Northwood, which just started yesterday and that will be for three weeks or just over three weeks, but we are watching it closely, similar to what Don outlined for the sawmills, Mark.

Mark Wilde — Analyst, BMO Capital Markets

Okay. And then just staying on pulp, Alan, I wondered if you can just help us in thinking about sort of medium term BC fibre supplies and what that implies for pulp mill capacity in BC. For example, do you have adequate supply for your four mills if we look out over the next two to three years?

Alan Nicholl — Executive Vice President, Canfor Pulp Operations & Chief Financial Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Thanks, Mark. I think, as you may recall, at our last conference call I made reference to the fact that we've been successful procuring additional supply both on the sawmill side and sawmills residual chips side and, indeed, more whole log chips as well, so we feel that we're pretty good there. I mean things are tight and I think every producer today, quite frankly, would say that things are tight, and all of us recognize that, as an industry, we don't have an abundance of fibre. But we are watching the position very closely. We clearly are going to be impacted by extensive curtailments, but then we're not alone in that regard. Looking out, Mark, it's clearly hard to call and it's probably unhelpful to speculate too far, but right now we feel as if we've got a reasonable balance.

Mark Wilde — Analyst, BMO Capital Markets

Okay. And then last one for me on this go around. I wondered if you guys can just walk us through demand pricing and cost trends over at VIDA and particularly sort of where things are right now versus the first quarter numbers.

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Yeah, I can maybe start with that, Alan. First of all, in Europe, I will say that we are, after the quarter, we are definitely satisfied and actually feel good about the results in Q1 from our European operations. Clearly, January, as you might remember, we got off to a little bit of a rough start there because the weather was so serious and also there was a lot of rhetoric around Brexit and so forth and a lot of speculation, but it basically rebounded quite well in February and March. And while there has been some impact in some of the UK business in particular, probably I would say and our guys would say it was

a bit better than what we would have expected, particularly again on the home centre side and the DIY side.

And the other thing over there in Europe, because of the product mix that we manufacture over there, you've got a lot of alternative markets that you can go to, which is what we've been able to do there relatively well for sure. So, in terms of the operational performance and as a result of COVID-19, we really haven't had any real impacts at all. We're running about 80% of our production right now. We've got two mills that are curtailed. All the rest are running at 100% capacity. And we haven't had any issues from an absenteeism point of view or a COVID-19 impact point of view at this stage and they are running it fairly well.

And the other thing I would say in Europe, just to fill out all the variables here, Mark, is around log costs. We've spoke about this before, Alan or I have, is that, you know, the one thing in Europe is they're very responsive to market prices, so when market prices are under pressure or we see any kind of deflation on lumber prices, you typically see a corresponding, albeit a bit of a lag, reduction in log costs. And that's what we're seeing again. So that helps to preserve the margins that you're forecasting. So overall, I would have to say that in Europe, at this point, it's living up to what we expected and it's been relatively positive here and we expect that to continue, at this stage at least, going forward.

Mark Wilde — Analyst, BMO Capital Markets

Okay. So, Don, from what you've said then, this sort of 18% drop just year over year that you flagged in the release is not corresponding to kind of a similar drop of like 1,800 basis points in your margins over in Sweden. Is that correct?

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

That's correct.

Mark Wilde — Analyst, BMO Capital Markets

And did I hear you say that the run rate in the first quarter for VIDA equated to about \$90 million a year?

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

No, I didn't say that. What I said was, ah, unless you read that somewhere, if you look at our—

Mark Wilde — Analyst, BMO Capital Markets

I thought I heard \$90 million in the commentary.

Alan Nicholl — Executive Vice President, Canfor Pulp Operations & Chief Financial Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Yeah, so, Don, maybe I can jump in there. Mark, what we were guiding to there is obviously Q1 extrapolated there and I think the point was to convey that, again, Europe, from our perspective, is still performing well and delivering very solid returns. So, apologies for any confusion caused.

Mark Wilde — Analyst, BMO Capital Markets

Okay. All right. Sounds good. I'll turn it over and jump back in the queue.

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Thanks, Mark.

Operator

Thank you. The next question comes from Paul Quinn from RBC Capital Markets. Please go ahead.

Paul Quinn — Analyst, RBC Capital Markets

Thanks very much. Good morning, guys. Just following up on Hamir's R&R question, you mentioned there's a difference regionally. Maybe you could go through which are the regions that are strong that you're seeing and where are the areas of weakness?

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

For sure, Paul. Right now, certainly the southeast continues to be relatively strong. Certainly the Midwest has been good. California is picking up somewhat. Although we don't do a lot of business there, it's definitely getting a little bit better. Probably the slowest area is certainly the northeast. That whole area would be the least. But certainly the Midwest, the southeast, those are obviously big markets for lumber period, but certainly for us, and that's where we've seen most of it. It's still a little bit slower down in the deep south maybe. So overall, that's kind of how we would look at it. California was really tough at the beginning but it's starting to come back a bit, as is Washington and Oregon.

Paul Quinn — Analyst, RBC Capital Markets

Okay. And then just on the new home side, what are your customers saying about how they are looking at 2020 at this point?

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

I think from our standpoint, we're forecasting a million starts this year, and basically that's as a result of some of the analytics that we do but also in conversation with a lot of national builders and whatnot. And there are a lot of initiatives out there. I mean clearly, that's the one segment where we're going to see the biggest impact. We need to face the facts on that. We know that. However, there are a lot of initiatives and there's a lot of work being done by the national builders through subsidized mortgage rates and several other initiatives that they're looking at to try to preserve as much as they possibly can and keep that whole side of the business going. But if you talk to the national builders, I would say that we would be that one million kind of area is probably, on average, pretty consistent.

Paul Quinn — Analyst, RBC Capital Markets

Okay. And then maybe just overall on COVID-19, how has it affected your operations so far? Have you got a number of people that have tested? Have you had to shut operations for any period of time? And how does that split between lumber and pulp?

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

We've got a few cases for sure between one or two in Sweden and one or two in the US south, but that's the extent of that. What we've really put in place, right from the start, significant amount of work in terms of trying to preserve the health of our people. So we put a number of policies in place around the social and physical distancing piece particularly and keeping the sites clean. If there is any suspicion of any area, we shut it down and we'll clean it up and we will do whatever we need to do. And we've done a lot ourselves, checked with a lot, we've actually done a survey of the whole company really to understand what level we're out there and everybody is pretty positive there. So that's been pretty good.

We haven't really suffered anything from the standpoint of increased absenteeism, for the most part. Probably the biggest issue is just people are concerned about the longer term and, unlike most things we go through, when is it going to end, right? But other than that, that's more of a personal thing, and so if you just look at the business though, I think we've done a terrific job, our HR group and all the folks have done a really good job working their way through this as best one can. And Europe has not really had any impact at all. The US, the mills that are running are running. We haven't had really a lot of issues there.

So overall, obviously, a lot of concern, a lot of apprehension, a lot of stress as a result of it, but we're trying to communicate like we've never communicated before and keeping everybody up to speed on what we're doing and recognizing that everybody at this stage of the game is making sacrifices and we're extremely appreciative of that and we understand the stress it's putting everybody under, right? So anyway, that's kind of long-winded, Paul, but that's kind of how we're trying to operate through this deal right now.

Paul Quinn — Analyst, RBC Capital Markets

Great. Thanks for that. And maybe just a last question, Alan, on the pulp side here. It looks like tissue demand is up. I don't know how much of that is a pull forward but it looks like paper is well off the cliff here and specialty is sort of a mixed bag. Maybe you can remind us on your sort of percent of those three main end-use buckets in terms of your pulp shipments.

Alan Nicholl — Executive Vice President, Canfor Pulp Operations & Chief Financial Officer, Canfor Corporation & Canfor Pulp Products, Inc.

I think you summarized it well there, Paul. I think just tissue was very good for us. It's still very good. It's moderating a little bit, normalizing, if you will. I think printing and writing has been hit hard, as you correctly say. So, in terms of answering your question, close to 50% of our product base is what we would call specialties and a good third or more is tissue. So printing and writing, obviously, is a much smaller percentage of our portfolio, which is by design, quite frankly. So, our product mix and our customer mix has helped to insulate us against some of the pressure that we're seeing from that segment.

Paul Quinn — Analyst, RBC Capital Markets

Excellent. Best of luck, guys. Good luck.

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Thanks, Paul.

Operator

Thank you. Your next question is a follow-up from Mark Wilde from BMO. Please go ahead.

Mark Wilde — Analyst, BMO Capital Markets

Yeah, I've got three follow-ups here. First, Don, just any kind of thoughts you'd want to offer on sort of how the COVID thing has played out over in Sweden where they've clearly had a little different model than most of the other western countries, how do you think that's worked or not worked effectively?

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

That whole situation is quite interesting because, as you outlined there, Mark, they've taken taking a bit of a different tact, especially early on. I think now, talking to our folks from Sweden, there's a bit more focus now, particularly on the social distancing or physical distancing, whatever you want to call it, no question compared to what it was three or four weeks ago.

But still though, if you really look at it, you talk to them, they definitely have a bit of a different model. They definitely have a lot of trust in their government and what they're doing around it there. And so, as a result of that, it's allowed our mills to run, the ones that are running there of the operations, all but two essentially at 100%. Absenteeism has been very minimal, if at all. And you probably saw recently Volvo announced that they're back operating again, which is big. They're a big company there and it's symbolic as well. So from their standpoint, they are very, very confident that they are taking a different tact, but that they do think, at this stage anyway, it's the right one and it's essentially a modified approach than what we've got here in North America for sure. So anyway, that's kind of what we see right now and so far it seems to be working.

Mark Wilde — Analyst, BMO Capital Markets

Okay. Next I wanted to just go over to lumber. You mentioned how sensitive the whole businesses is to supply/demand balance. I wondered if you could give us some sense of how you see takeaway right now but also how you see inventory in the channel. Because it had seemed, for the last four to six weeks, like there must be a heck of a lot of inventory coming out of the channel because it didn't sound like anybody was taking away anything from the mills, yet there was still quite a bit of construction activity going on.

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Yeah, and I think that's accurate. I mean, first of all, the takeaway, as I mentioned, on our R&R side has been pretty consistent and pretty solid, particularly in some of the regions that I indicated to one of the other fellow's questions. So, on the R&R side, the takeaway has been definitely solid.

In terms of the overall inventory in the channel, I think definitely that it's not stressed at all. I think it's going to be stressed from a standpoint of not enough, because if you look at all the downtime that's taking place, the premium products in particular that most of the home centres look for and the treated guys are looking for, two of the successful areas, they will want a high-end product definitely. And so when you start to take away production, it has a corresponding increased impact on prime product recoveries. And so that's why we would say, in terms of overall inventory, it's pretty tight and it's going to get tighter, in our view, particularly if demand stays kind of relatively close to what we're seeing today.

If you switch over to the two-and-better side, clearly with the pros being down a bit more, obviously are down a fair bit, you would think that would have an impact, but there is a lot of two-and-better down too. We figure across North America, Mark, that the overall production is down 25%. That would be our guess. And that's across everywhere. And whether it's the US northwest or examples of seven out of eight mills completely down, there's lot of production out, right, so even on the two-and-better I think is relatively tight also.

Mark Wilde — Analyst, BMO Capital Markets

Okay. Last one for me, and this is kind of a sensitive one I appreciate, but it's a really difficult period for workers, for communities up in the BC interior. I just wondered, if we just left politics aside, are there any ways in which, sort of if the industry was more consolidated, it might make that process of kind of rationalization and restructuring easier or more rapid, Don?

Don Kayne — Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Our view continues to be and it has been for a long time, long before COVID started, was the rationalization still has to continue to take place in British Columbia and it's due 100%, or not 100% but close to it, due to the pine beetle and what we've been facing for a long time there.

So, our view still continues to be there needs to be more production coming out regardless of COVID-19 over the long term here and that's, just face the facts, we don't have the fibre going forward like we had in the past. And we've got a bit of spruce beetle in certain parts of the province too that's adding to that problem. We've had forest fires. You don't grow those trees back in a week either, right? So, you combine all those things in the last couple, three years and it's not hard to conclude that there's going to be needed more rationalization across British Columbia.

Mark Wilde — Analyst, BMO Capital Markets

Okay. Very good. Thanks.

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

Okay. Thanks, Mark.

Operator

Thank you. There are no further questions. I'll now turn it over for closing comments.

Don Kayne —Chief Executive Officer, Canfor Corporation & Canfor Pulp Products, Inc.

All right. Thanks, operator. I appreciate everyone participating in the call here and all of you please stay safe and we certainly look forward to speaking with you at the end of Q2. So, thanks a lot for your support in Canfor and Canfor Pulp and we'll talk to you soon. Thanks.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.