

## **Canfor Corporation & Canfor Pulp**

### **First Quarter 2021 Results**

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### **Mark Wilde**

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to 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, everyone. Thanks again for joining the Canfor and Canfor Pulp Q1 2021 results conference call. I'll make a few comments before I turn things over to Alan Nicholl, our Executive Vice President 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 quarter one. In addition to Alan and I, we are joined by Kevin Pankratz, our Senior Vice President of Sales and Marketing.

I'd like to begin by recognizing the hard work, the resilience, and dedication of all of our Canfor and Canfor Pulp employees. Through everyone's exceptional efforts, not only have we persevered through the challenges of the pandemic, but also advanced our strategy in several areas.

We are excited to be advancing our sustainability culture to the next level, significantly increased our focus on ESG reporting, and are in the process of developing a comprehensive sustainability strategy that's aligned with best-in-class ESG standards. As part of this process, we are undertaking goal setting and will be implementing action plans with meaningful targets to provide a pathway to achieving these goals. This work will be outlined in our sustainability strategy that will be announced later this year.

We see opportunities to capitalize on the low carbon economy and the carbon storing green attributes of wood products in construction and we are excited about the growing use of mass timber in non-residential construction. In addition, with more countries banning the use of single-use plastics and increasing demand for renewable low carbon materials, we have a great opportunity to lead in the development of sustainable products that can replace fossil fuel-based products. With Arbios Biotech, our expanded joint venture partnership with Licella to convert wood biomass into high value biofuels, we will support a reduction in greenhouse gases from the transportation sector and will also contribute to a low carbon economy.

We continue to make significant progress on our commitment to build a diverse workforce that represents the communities in which we live and work by 2030. Due to the significant commitment to diversity and inclusion throughout the organization by our senior management and board, we are seeing results, including a solid increase in the hiring of women and Indigenous people.

Turning to our financial results, our lumber business generated record high operating income and revenues of \$607 million and \$1.7 billion, respectively, in the first quarter. Global lumber markets continue to benefit from sustained high levels of demand in excess of available supply, led by strong US housing

activity and R&R demand. US housing activity, particularly for single family homes, has increased sharply in recent quarters, reaching 15-year highs in March. Elevated demand continues to reflect a number of trends that have emerged since the onset of the pandemic combined with an aging housing stock and low existing home inventories following a number of years of modest US housing activity. While consumer spending habits are likely to normalize when the COVID-19 pandemic ends, we believe favourable demand fundamentals will continue to positively impact our industry going forward.

In Asia, lumber demand was solid in the first quarter with improved pricing, particularly in Japan, anticipated in the second quarter, reflecting strong demand and a lag in contract pricing. Our European lumber business continues to perform well with record high earnings achieved in the first quarter. While pricing in Europe has lagged North America due to the nature of overseas contract pricing, market fundamentals in Europe remain strong with significantly higher sales realizations anticipated in the second quarter.

Turning to our pulp business, Canfor Pulp reported operating income of \$5 million in the first quarter. Global pulp pricing increased significantly during the quarter, reflecting improved demand, particularly from China, combined with global transportation constraints. Following the successful replacement of recovery boiler No. 5 at Northwood in January, Canfor Pulp performed well in the quarter with the benefit of significantly higher pulp pricing anticipated to be fully realized in the second quarter.

During the first quarter Canfor repaid its \$225 million term debt with cash on hand and, following major growth in recent years, ended the quarter with only a small amount of net debt. Supported by our improved balance sheet and strong market outlook, we anticipate increased capital spending in 2021 and

continue to assess various internal and external growth initiatives as we look to grow our business on a global basis. At the same time, we are committed to remaining patient and being disciplined while we wait for the right acquisition opportunities to come along and we will exercise judgment to pass on opportunities that do not align with our strategy or are overpriced due to today's high product prices. Canfor and Canfor Pulp will continue to deploy capital internally that target strong rates of return, consistent with our strategy and increasing focus on sustainability.

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

**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 yesterday morning and come together with our overview slide presentation in the Investor Relations section of the respective companies' websites. In my comments this morning, I'll briefly speak to quarterly financial highlights, a summary of which is included in our overview slide presentation.

As Don highlighted, our lumber segment reported record high operating income of \$607 million for the first quarter of 2021 compared to \$461 million for the previous quarter. Results in Q4 included a net duty recovery of \$95 million following the finalization of CVD and ADD rates applicable to the first period of review. Lumber segment results continued to reflect extremely strong global market

fundamentals, with sustained high levels of demand exceeding available supply resulting in new record prices during the quarter.

Unit sales realizations in Western Canada and the US south were up substantially, reflecting these positive price fundamentals, and significantly outweighing the impact of market-related log cost increases in Western Canada and moderately lower shipment stemming from transportation constraints. By way of note, North American lumber prices have continued to increase sharply early in the second quarter, supported by strong order files.

Our European business continues to generate strong results and also recorded record high earnings in the first quarter, buoyed by solid demand and favourable pricing in that region. While European pricing has lagged the increases seen in North America, pricing has continued to see significant increases early in the second quarter, as Don outlined.

Our pulp business reported operating income of \$5 million in the first quarter compared to an operating loss of \$28 million in Q4. Results for the current quarter reflected improving global pulp market conditions combined with a 25% increase in pulp production following the successful rebuild of Northwood's recovery boiler No. 5 that was completed in mid-January.

Global pulp pricing rose sharply during the first quarter, supported by increased demand, particularly from China, as well as tight supply arising from global supply chain challenges. As highlighted during our last analyst call, due to the lag between shipments and orders, the significant majority of these price increases will be realized in the second quarter.

Pulp unit manufacturing costs were moderately lower than the previous quarter as the benefit of higher production more than offset seasonally higher energy costs. Fibre costs were slightly lower than those in Q4.

At the end of the first quarter Canfor, excluding Canfor Pulp, had net debt of \$25 million and available liquidity of approximately \$1.2 billion. The unprecedented cash flow levels in recent quarters supported the early repayment of Canfor's \$225 million term debt in Q1. Canfor Pulp ended the first quarter with net debt of \$60 million and available liquidity of approximately \$87 million. We anticipate higher capital spending in 2021 with approximately \$300 million in the lumber segment and close to \$70 million for Canfor Pulp, excluding capitalized major maintenance costs.

While we are comfortable retaining and enhancing our existing liquidity until attractive opportunities present themselves, we continue to assess various potential attractive and accretive organic and external growth and diversification opportunities and continue to look closely at the potential for restarting our share buyback program, but at the same time we are mindful of the need to adopt a thoughtful and disciplined approach.

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

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

All right. Thanks Alan, and over to you, operator. We'll take questions now from analysts.

## Q & A

**Operator**

Thank you, Mr. Kayne. We will now take questions from financial analysts, as stated. If you have a question, please press star one on your touchtone phone. 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.

And your first question will be from Sean Steuart at TD Securities. Please go ahead.

**Sean Steuart** — Analyst, TD Securities

Thanks. Good morning. A few questions to get through.

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

Good morning, Sean.

**Sean Steuart** — Analyst, TD Securities

Good morning. Let's start with the European operations. We were particularly impressed with the results there and a couple of questions on that front. First off, it looks like the production rates you've seen in Q1, and even going back to late last year, it looks like you're running more or less full out based on the capacity you've given for Europe. Any updates on how we should think about annual capacity with both Vida and Bergs in the mix and organic expansion initiatives you're undertaking there? How should we think about total capacity?

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

Thanks, Sean. In terms of capacity there, we're basically running and planning to run around 1.5 billion board feet annually, including the Bergs mills. And of course we're always looking at opportunities for upside there, particularly from the Bergs mills where we felt that there was some upside opportunity and we are certainly seeing that. Those three mills that we bought there are doing extremely well. We're really pleased with that overall. And I guess we would have expected, and maybe this is what you're getting around to a little bit here, is having some bigger interruptions due to COVID. And like all our operations really across everywhere we operate, we really have not seen any really real significant reductions at all due to COVID. We've lost a shift here and a shift there of course, but it really hasn't presented any major challenges for us.

I think in terms of organic capital, like we've talked about in the past, we see opportunity in Sweden for organic capital. We're in the process right now, our president and CEO of Europe, they are evaluating those opportunities as we speak. They've been working on them for a while. But certainly there are operations, including the Bergs operations, that no doubt can justify organic capital. So we're just working through that. Obviously, you can appreciate it to try to prioritize all of that is a bit of work, but we're getting through that and it'll just come down now to timing, due to contractor availability and equipment and all of that. So right now I would say about 1.5 billion at this stage.

**Sean Steuart** — Analyst, TD Securities

Okay. Thanks for that, Don. And it looks like the price realizations in Europe, they exceeded our forecast, and I know there is by-products and it's not just lumber sales, but can you speak to how much

of that volume is moving to North America and how that's transitioned over the last few quarters and I suppose potential further upside into the exceptional North American pricing we're seeing right now?

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

For sure, Sean. So maybe I'll get Kevin, he's doing a lot of work and he's, of course, responsible for all of that, Kevin, you can comment on all of that for Sean.

**Kevin Pankratz** — Senior Vice President, Sales & Marketing, Canfor Corporation

Sure. Good morning, Sean. Actually with our European operations, they've been fairly consistent in the markets they operate, and I would say that we haven't materially changed our North American presence. It's been consistent. Maybe a couple of points here and there.

But we remained fairly disciplined in the other markets we serve like the UK, Central Europe, Asia, and we're starting to see fairly good gains on pricing as they look at it on a quarter-to-quarter basis, but not materially shifting incremental volume to the US market but maintaining our discipline strategy of diversified markets that they serve and support those core customers.

**Sean Stuart** — Analyst, TD Securities

Thanks, Kevin. And while I have you, can you give context on how your order files look in North America right now and how that length has evolved over the last quarter?

**Kevin Pankratz** — Senior Vice President, Sales & Marketing, Canfor Corporation

Sure. We continue to see pretty strong order files. Obviously, the SPF order files are a little bit longer than the yellow pine ones, but we're well into Q2, which gives us confidence on the strength of Q2, and for yellow pine maybe just a couple of weeks lighter than that. But order files are essentially, if not the same, if not a little bit stronger than they were in Q1.

**Sean Steuart** — Analyst, TD Securities

The six weeks plus is fair to say for SPF?

**Kevin Pankratz** — Senior Vice President, Sales & Marketing, Canfor Corporation

Yeah, five or six. Five for SPF, maybe just a week or two shier on the yellow pine.

**Sean Steuart** — Analyst, TD Securities

Okay. I'll get back in the queue. Thanks very much, guys.

**Operator**

Thank you. Next question will be from Mark Wilde at Bank of Montreal. Please go ahead.

**Mark Wilde** — Analyst, Bank of Montreal

Thanks. Is it possible, as we're thinking about the use of capital, to give us an update on that South Carolina greenfield and then maybe to just put some kind of priorities and some metrics around M&A that you might look at?

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

Yes. Thanks, Mark. I'll maybe start on that one. First of all, South Carolina, we're not really looking at anything there.

**Mark Wilde** — Analyst, Bank of Montreal

Sorry. Georgia.

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

Oh, that's okay. No problem. Unless Alan wasn't telling me something. So in Georgia, maybe just M&A in general, we're in the process, we've got some exciting things we're looking at there in terms of expansion potentially overall on a greenfield front and organic-wise, which we're looking at right now. But we haven't made a decision yet in terms of whether it's Washington or... There's a couple of other potential locations that look good, both at existing operations that we have, but also potentially new ones. But I guess safe to say right now we are looking at, and that's been a huge part of our consideration here in terms of capital allocation as to what we're going to do around that and where. But we are close and they are, a couple of them are exciting, but we haven't made a decision yet in terms of whether it's Washington or potentially another location.

**Mark Wilde** — Analyst, Bank of Montreal

Okay. And then just in terms of M&A, can you just help us with some guideposts in terms of where your priorities are, including kind of US versus Europe?

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

Yeah. Good question. Because it really does boil down to that. It's between Europe and the south, southeastern United States. And I would say that, first of all, between the two locations, it would be 50-50 in terms of they're both solid. We obviously like Europe a lot, but we also like and believe in the southeast a lot. We've got opportunities in both places that we're looking at.

Probably in Europe it may be a bit more realistic, I think, in terms of multiples. Certainly in the US southeast, what we've found, and the fellows involved in that from our Company that are looking into that and are finding real significant multiples more than what we're certainly prepared to pay at this stage of the game, and we don't see that probably changing for a while. So that's why we've really focused hard here and we're going to increase our capital quite a bit, as you may know or may have seen, in 2021 and on into 2022 around organic capital particularly and potentially some other even additional exciting projects that we're working on right now.

So M&A, there might be something by that comes around in North America, but I'm not counting on that and we're not counting on that. Europe, maybe a bit better likelihood of that but, again, a similar approach there too with organic capital opportunities I mentioned on the earlier questions from Sean and also, like I said, on potential new investment there.

**Mark Wilde** — Analyst, Bank of Montreal

Okay. And then, Don, if I could, just on capital, one more point. I mean this is really an extraordinary period, not only in terms of the level of lumber prices but the duration of the run. You compare those to kind of what we saw for a flash back in 2018. I'm just a little concerned about the ability of the industry to reinvest all this capital, whether it's through M&A or through kind of new projects. What would be your thought on just taking some of this windfall and just returning the cash to shareholders? And not necessarily through repurchase, maybe a special dividend, just say, look, this is a one-time enormous windfall here, we can't possibly allocate all of this back into the operation, so the smart thing to do is just return some cash to shareholders.

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

Yeah, for sure, Mark. And I think, as we've spoken before, certainly that's a consideration and we've had a number of discussions on some of the options around that. But at the same time, I mean if you go back to 2020, we cut our capital back significantly, right? We cut it back from probably 250 to 100. And that was a challenge to do a 100. We've increased it to 300 this year and 2022 will be, no question, it'll be up again for sure. So for us, I mean we really believe in the growth opportunities that are going to present myself, like I mentioned in Europe and in the south on organic, and potentially greenfield, for lack of a better word, so those are things that we're looking at.

But I can tell you this: We are going to be ultra cautious on what we do at all those regards and that's why we don't mind at all having a little extra cash around for sure, considering what this industry goes through it seems on a regular basis and the cyclicity of it and all the things that you're well aware

of better than I am, and so we're taking a really cautious approach before we make any decisions at all. Extremely disciplined like never before around how we're approaching that. But certainly what you mentioned there and whether you talk about share buybacks or you talk about special dividends or all those things, I mean those would be a part of it. But honestly, we're really trying to focus hard now as to, like I said, get that 100 back to 300 and then looking at next year and what we may be able to do again in Europe and in the south particularly, although we do have a few projects that we might want to be considering here too in west.

**Mark Wilde** — Analyst, Bank of Montreal

Yeah. Okay. Well, it's just, you know, it's a lot of sailors hitting the town with a lot of money in their pocket, so silly things can happen.

The last question for me, Don, the BC lumber industry produced about nine billion board feet last year. Realistically, what does that number look like in better markets like this? What can BC return to that you think is kind of a sustainable level over time?

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

That's a good question. We think it's probably going to be less. Obviously the reductions due to beetle are still occurring. There's going to be more decisions made here going forward in Western Canada, British Columbia, for sure, and so I think it'll be a smaller number than that. And that's why we've seen, including ourselves recently with Isle Pierre, with the permanent shut of Isle Pierre, I think we'll see more.

If you had to throw a number out there, I think we still got another probably billion feet, I'm not sure exactly, there's variable views on that, but probably in that eight to nine billion feet probably is a realistic. And the benefit of that right now is we're seeing a lot less pressure on the purchase wood market because of some of the rationalization that's occurred. So we're not seeing the escalation in the purchased wood log market in British Columbia to the extent we saw back at 2018 where there was a lot of aggressive purchase behaviour on the purchased wood market. But that'd be my best guess at this stage, but maybe Pat can get more specific with you on that later in terms of that number, if we think it's a bit less.

**Mark Wilde** — Analyst, Bank of Montreal

Okay. That's really helpful. Thanks, Don. I'll turn it over.

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

Okay. Thanks, Mark.

**Operator**

Thank you. Your next question will be from Hamir Patel at CIBC Capital Markets. Please go ahead.

**Hamir Patel** — Analyst, CIBC Capital Markets

Hi. Good morning. Don, we've seen the BC government recently allude to some major changes coming to the province's tenure allocation. Could you speak to what potential impacts you think that might have for Canfor?

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

The one that we're focused on right now, of course, is the Prince George TSA and we don't know the answer to that yet. We haven't heard how that's going to shake out.

I think it's safe to say there will be some changes there for sure, particularly due to the mountain pine beetle, and so we are waiting for that. And we're also waiting on the intentions paper that the Premier alluded to at the COFI conference, which we were encouraged by some of his comments for sure. We're waiting to hear about the intention paper and what that's going to include and also on the TSA decision. But I mean it's safe to say that we will probably see a reduction there.

I think I would say though that we're obviously following it extremely closely, because it's going to have implications, right? Not just for us, but all the folks in the PG TSA area that operate, depending on what that ends up being. But, as expected, the government is very careful in terms of trying to signal what that might be and so we don't have any idea at this point.

**Hamir Patel** — Analyst, CIBC Capital Markets

Okay, great. Thanks, Don. And just a question for Kevin. I'm curious what you're seeing now in the R&R channel. How do you think volumes there are going to fare in 2021 versus 2020 and any changes you might expect as the year unfolds?

**Kevin Pankratz** — Senior Vice President, Sales & Marketing, Canfor Corporation

I would say, like for Q1 we were actually ahead of Q1 of 2020. Of course that was prior to COVID hitting, so probably no surprises there. And we're just into early Q2 and seeing some delineation from the pace, the extreme pace that we saw last year. However, when you look at it compared to 2019, we're well ahead and in line with forecast. So I think that's still going to play out, Hamir, like this post-COVID environment and people's discretionary money where they're going to spend it, but we're still seeing a healthy business in that segment. And maybe the realization to expect the exact same energy and pace of consumption might be a bit tough to replicate, but we're starting to see it not materialize to the same degree, but well ahead of 2019 and in line with our forecast and expect a good steady year for this year.

**Hamir Patel** — Analyst, CIBC Capital Markets

Fair enough. Thanks, Kevin. That's all I have.

**Operator**

Thank you. Next question will be from Paul Quinn at RBC Capital. Please go ahead.

**Paul Quinn** — Analyst, RBC Capital Markets

Great. Thanks very much. Good morning, guys.

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

Good morning.

**Paul Quinn** — Analyst, RBC Capital Markets

Hey, Don. At a high level, just wondering how you look at the sustainability of the current lumber cycle and what factors or what things are you looking at specifically that would bring it into the party?

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

A couple of good questions. We think there's some good sustainability for this year and probably on it in next year. I mean some of the fundamental changes that we're seeing at a high level we think, you never know for sure, because there's a lot, you know, you can't really rely on history anymore. You look at the future and some of the changes that are occurring.

Number one, I do believe that after years of work as an industry and messaging the advantages that our products can play in a low-carbon economy and green building attributes of our products, that's all finally hitting home. And the reason I feel a bit better about that, and I know Kevin and I talk about this a lot, is how the customer base ultimately is shifting to some of these world-class Fortune 500 companies like Microsoft and Google and you've heard about some of those projects. That gives us some confidence, we're starting to see a big shift there, which is hard to predict how that could end up, but it's positive for sure.

The whole suburbia, from urban centres, moves that we're seeing and the impact on single family dwellings, it's been exaggerated, but I think that that's probably going to continue going forward, which will serve us well in our industry, for sure. And that'll probably be followed here by some multifamily as well. The mass timber side, you talk about that yourself a lot and we tend to agree with some of the work you've done around that. The opportunity here is is large, for sure. We see it in Europe. It's growing. The commercial application will continue to grow. So, all those things should bode pretty well.

Supply we don't feel overall is going to increase significantly at all. So the big concerns that we got, probably number one is affordability, and to what degree is that affordability challenge going to accelerate here going forward. Clearly, prices in pretty much every, all the goods, have gone up a lot and at what point do we start to see more inflation and interest rates start to move up? I mean, right? Those areas are critical concerning for us as we look forward and something that we're very, very mindful of and trying to integrate it into our thinking and our forecasting.

The other area that we really are concerned about, again, longer term here, and short term too, is just supply chain logistics and supply chain performance with all of the modes of transportation, not just rail, but rail truck and also container and vessel traffic. And that seems to be really challenged globally, not just for us but everywhere, and it's impacting us.

So there's a lot of work, as we go forward, that has to be thought through there around how do we modernize the supply chains, digitize the supply chain, all of the things that we're working on at our Company and probably as an industry. So those would be probably the main ones that certainly we think about.

**Paul Quinn** — Analyst, RBC Capital Markets

Okay. And then just, you know, Potlatch, earlier this week, the CEO there, Eric, mentioned that he doesn't think US south log prices will pick up materially for four to five years. Is that pretty consistent with what you're seeing in your geographies that you're operating in in the US south?

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

Yeah, we see a little bit here and there, but if you go back the last four or five years there's been minimal for sure. And going forward, we see some increases for sure here and there, but overall it's not material.

**Paul Quinn** — Analyst, RBC Capital Markets

Okay. And then maybe, you know, just getting off the Weyerhaeuser call, they were mentioning that the potential of the US infrastructure spend could result in an incremental 1 billion to a 1.5 billion board feet of lumber demand. Is that consistent with what you would see? And given that and given your sort of rosier outlook for the sustainability of the lumber cycle, I'm just wondering why you're so conservative on capital allocation.

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

Well, first of all, on the 1 to 1.5 billion, I think it's going to have a positive impact for sure. And you don't have to go back too far to conclude that. You go back to the last recession when China really made a big commitment to infrastructure and the impact that had at that time for our industry, I mean it was obviously very positive when you go through an infrastructure spend like China spoke about and now the US is contemplating as well. We would say it's definitely a positive.

And again, on the capital piece, I think that you're alluding to is why are we not spending more there of the cash that we'll likely have on hand going forward, and again, I'd just reiterate again that, despite the fact that things are very good right now, we're never going to lose sight of the fact that we're in a cyclical business and we want to be in a position where we do have extra cash for sure when things

do change again. And they will eventually here. And we want to be ready and we want to have cash available and without extending ourselves any farther than we need to.

So we do have, as I mentioned at the outset a little bit, we do have some organic opportunities that are in front of us that we're working on over and above the \$300 million or so that that Alan has identified that we're going to spend in 2021 this year. But again, we're going to be extremely disciplined and very, very careful in how we deploy the capital. And we are looking at some other alternatives too, as I mentioned, on NCIB, et cetera, but that's still kind of under consideration.

**Paul Quinn** — Analyst, RBC Capital Markets

All right. Fair enough. Look forward to these Q2 results. Thanks.

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

Thanks, Paul. See yah.

**Operator**

Thank you. Next is a follow up from Mark Wilde at Bank of Montreal. Please go ahead.

Please go ahead, Mark.

**Mark Wilde** — Analyst, Bank of Montreal

Thanks. I'm here. I'm here. I'm just curious whether you are seeing any sign of customers pulling back in response to these high lumber prices, whether the do-it-yourself channel perhaps is starting to see some easing. Just colour on demand destruction or demand deferral.

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

Kevin, why don't you comment on that for Mark.

**Kevin Pankratz** — Senior Vice President, Sales & Marketing, Canfor Corporation

I think the one segment that we've seen a little bit of retraction would be in the multi-family segment. And you can see that in the results with the US census on housing starts. And those projects tend to have longer cycles and price commitments. So I think that's one area, but maybe they just don't get cancelled, they just get postponed, which will maybe fulfill longer-term demand and keep it consistent.

And with respect to like the new home construction, so far the prices appear to be passing on. And we're obviously in these new hyper price phase we're in right now and so maybe that's an area where Don mentioned on affordability, when will that impact it a little bit. But so far we haven't seen the resistance that you would expect. And keep in mind other products that we would compete with are also experiencing inflation, such as steel. So I think we're in this space where there's lots of inflation going on, but we do worry about that longer term with respect to inflation and potential impact on demand destruction. But so far we haven't seen that resistance.

**Mark Wilde** — Analyst, Bank of Montreal

Have you seen anything from the, let's say, treated lumber in the US south? So you got a guy who's a do-it-yourselfer and he looks at the price of doing a deck on his own this year versus what it would have been a year or two ago and says, well, maybe I'll wait a little while.

**Kevin Pankratz** — Senior Vice President, Sales & Marketing, Canfor Corporation

Yeah. I'm sure maybe there's elements of that, because we're definitely not at the same pace as we were this time last year in the treated side. Demands been steady and consistent, but not at that pace that we saw so far last year.

**Mark Wilde** — Analyst, Bank of Montreal

Yeah, okay. Then another question, can you guys give us some expectation of what you would expect for lumber imports into North America, particularly from Europe, this year? I'm trying to kind of balance out these really high prices in the US with the fact that you've got a market that seems quite strong over in Europe and wondering whether that'll reduce the amount of flow that we might have seen into North America.

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

Kevin, you can go ahead and comment on that if you'd like.

**Kevin Pankratz** — Senior Vice President, Sales & Marketing, Canfor Corporation

It'd be logical to expect to see more come over there, Mark, and you heard from our comments, we're going to be fairly consistent and stable, but I think there is, we are seeing that, which is in turn

driving shortages in the European market and it's going to support further strength in those, in the coming quarters, with respect to demand, as their inventories become less filled. So we are expecting to see a little bit more and factoring that into our analysis.

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

Mark, just one thing maybe I can just add, Kevin, if it's okay, and I think you will know this, but if you think about, our business in Europe and one of the things that impressed us when we purchased Vida and why we were so pleased to be successful there is they have focused on market and customer diversification, like we have, for many, many years. And they have an exceptionally strong customer base not unlike what we have here. They sell direct, very little intervention, longer-term contracts, and they live by them and they think about the long term like we do. We're not focused on next week or next month, right? In Europe even more so, but similar though. They are looking outwards. And you look at the customer base that they have from North Africa to the UK to Australia to domestic, right, within Sweden, Denmark, Central Europe, they have an extremely strong customer base. And so even with prices where they're at, Kevin, it's been difficult to get them over that 14%, 15% number.

So I think that there are some that have been opportunistic in terms of the North American market, like particularly as a result of the beetle issue in Central Europe and they had not very high-quality logs, so they made a lot of lower grades, and of course that was able to be shipped into the southeastern US. But that's coming to an end as well. And so to Kevin's point, it will be up for sure, but I don't think it will be anywhere near the way it was when you go back, I don't know, 15, 20 years when there was a lot more coming this way.

**Mark Wilde** — Analyst, Bank of Montreal

Okay. The last one I was curious about, Don, is just how much of an impact you think transportation and logistics are contributing to kind of the market situation at the moment. I mean I've heard about some rail issues coming out of the Pacific Northwest and out of Western Canada and then of course the trucking scarcity in the south has gotten a lot of attention as well, so maybe just a few thoughts on how sort of that's playing into the market backdrop at the moment.

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

Kevin, you're living with that every day, maybe talk about that a little bit and maybe New South Express.

**Kevin Pankratz** — Senior Vice President, Sales & Marketing, Canfor Corporation

No doubt that there has been some impact, especially in the US south with trucking. I think it's quite noted that truck shortages are adding some challenges in that space there, and we've had our challenges in Western Canada to get product there, but not a real, like we're not really building inventory as a result. But I think with our new south operations or our trucking fleet down there, that's been a real positive for us, because we've been able to utilize that fleet to execute on order file and be a little less exposed to just the open truck situation. But there's no doubt.

But I think the underlying impact there, Mark, is that there was always, like that whole working inventory of lumber in the supply chain, it never fully recovered, so that's the real big fundamental driver that's supporting pricing. And whatever transportation challenges we're facing, for sure there's got to be some added component to it, but I think we still haven't fully recovered from the depletion of inventory from this time last year.

**Mark Wilde** — Analyst, Bank of Montreal

Yeah. Okay. That's very, very helpful. Listen, guys, good luck in the second quarter and take good care of the cash.

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

Absolutely, Mark. Appreciate it. We will. Count on it.

**Operator**

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

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

All right. Thanks, everyone, for joining the call and thanks to all the employees that that there are listening as well and we appreciate all your efforts this past year and all the support from our shareholders

and investors. So, thanks very much, and we look forward to talking to you again at the end of Q2. Thank you very much. Have a good day.

**Operator**

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we do ask that you please disconnect your lines.