

## Canfor Corporation

### Second Quarter 2020 Results

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## PRESENTATION

### Operator

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

During this call, Canfor Corporation 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 Corporation and Canfor Pulp's Chief Executive Officer. Please go ahead, Mr. Kayne.

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

Thanks, Colin, and good morning. Thank you very much for joining the Canfor and Canfor Pulp quarter two 2020 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 our Chief Financial Officer of both Canfor Corporation and Canfor Pulp. Alan will provide a more detailed overview of our performance in quarter two. In addition to Alan and I, we are joined by Kevin Pankratz, who is our Senior Vice President of Sales and Marketing.

I would like to start by thanking our incredible employees for their continued dedication and perseverance as we navigate the unprecedented challenges of COVID-19. As we have adapted to new

working conditions, our employees have continued to perform extremely well, which contributed significantly to our positive results this quarter. In addition, our new systems have worked very well with the majority of our corporate employees continuing to work from home, which has been the case since mid-March.

As an organization, we have demonstrated that we can work well in times of crisis and uncertainty. Our top two priorities continue to be protecting the health and safety of our employees and executing on our strategy to support our valued customers and sustain the business for the long term. As a result of the pandemic, we had to make a series of difficult decisions to take extended downtime across all of our operating regions with our operations in British Columbia being impacted the most. In addition, due to an insufficient supply of economically viable timber, we made the decision to permanently close our Isle Pierre sawmill in May. The timing of this decision was expedited by the impacts of the pandemic on our overall business. We deeply regret the impacts of these very difficult decisions have had on our employees, on our contractors, and the local communities. I want to thank our valued customers for their understanding and support through this difficult period. Since the onset of the pandemic we have been working closely with the federal, provincial, municipal, and state governments and appreciate their willingness to work in partnership with Canfor and our industry.

Turning to our markets and beginning with lumber, conditions were extremely volatile during the second quarter. In April, global lumber demand declined sharply in the wake of closures of non-essential businesses and lockdowns in many parts of North America, Europe, and Asia. Unprecedented demand from the repair and remodelling segment, lean inventories across the supply chain, and reduced lumber supply resulted in dramatic increases in North American and European lumber pricing as the quarter

progressed. Lumber prices have continued to increase early in the third quarter reflecting strong demand fundamentals and limited available supply combined with some challenges on the transportation front. While lumber demand has been encouraging, there remains significant uncertainty over the long term. Offshore lumber demand was relatively stable during the quarter with prices seeing more modest increases.

During the second quarter we completed the 100% ownership of the Elliott Sawmilling Company, which increases our capacity in the US south by a further 210 million board feet. In addition, Vida entered into an agreement to purchase the three sawmills in Sweden from Bergs Timber. This transaction is anticipated to close in the third quarter and is supported by Vida's strong performance and solid balance sheet. These two acquisitions are a further step in our goal to diversify our business globally. In particular, the strong local relationships of our co-owners in Vida allowed us to identify and complete the Bergs Timber transaction at very attractive pricing. After taking account of these acquisitions, our regional production mix is 43% British Columbia, 31% the US south, 22% in Europe, and 4% in Alberta. Compared to 2013, when our business was 88% Canadian based, we believe this more regionally diversified operating portfolio provides a more stable earnings platform for the future.

Our pulp business was significantly impacted by a reduced residual fibre supply and increased fibre cost due to the extensive sawmill curtailments in British Columbia during the second quarter. In addition, we experienced challenging global pulp prices as the quarter progressed in response to a much lower demand for printing and writing papers. Global pulp markets are anticipated to remain under pressure through the third quarter as a result of higher inventories and ongoing weakness in demand. In response to reduced fibre availability and challenging market conditions, Canfor Pulp took a three-week curtailment

at Northwood in the second quarter and is currently taking a four-week curtailment at PG and Intercon Pulp mills.

As a result of the challenges and uncertainty caused by COVID-19, both Canfor and Canfor Pulp have taken a number of steps to further enhance our already solid liquidity position. I will now turn it over to Alan Nicholl to talk about the quarter.

**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 afternoon and come together with our overview slide presentation in the Investor Relations section of the respective company's 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.

Our lumber segment reported operating income of \$107 million for the second quarter compared to a loss of \$89 million for the previous quarter. Our Q2 results include a net duty expense of \$19 million, restructuring costs of \$14 million, and an \$81 million recovery of a previously recorded inventory write-down provision reflecting the steep increase in lumber prices that we saw towards the end of the quarter and into July. After adjusting for these items, the lumber segment generated operating income of \$60 million.

Notwithstanding the disruptive impacts of COVID-19, which resulted in extensive production curtailments across all of our operating regions during the quarter, improved lumber segment results reflected a marked improvement in lumber demand and prices as the quarter progressed.

The company's US south operations benefitted from a strong pick-up in Southern Yellow Pine lumber prices in May and June, which translated into improved sales realizations and operating results, despite a 12% COVID-related decline in production quarter over quarter.

Our European lumber business continued to perform well in the quarter, also generating improved results versus quarter one against a backdrop of minimal production disruption and solid demand, particularly from the repair and remodelling sector during the quarter. The business continues to meet our initial expectations with earnings so far in 2020 tracking ahead of 2019.

In Western Canada, operating results were impacted by extensive production curtailments, as Western SPF lumber prices remained under pressure for most of the quarter; however, the sharp increase in Western SPF prices have supported a return to more normal operating rates in June and a strong finish to the quarter was the major factor in improved quarter-over quarter operating results for that region.

Our pulp business reported an operating loss of \$6 million for the second quarter compared to operating income of the same amount reported for the previous quarter. For the quarter, the benefits of a weaker Canadian dollar and improved BCTMP prices were outweighed by increased fibre costs resulting from materially lower fibre volumes available as well as the \$8 million inventory write-down at the end of June reflecting the weaker prices.

Pulp shipments were down 14% in the quarter reflecting a 13% decrease in pulp production related to production curtailments at Northwood combined with a vessel slippage over quarter end. Pulp unit manufacturing costs reflected the aforementioned increase in fibre costs as well as the impact of reduced production volumes, but were largely offset by seasonally lower energy costs and reduced maintenance spending.

At the end of the second quarter, Canfor excluding Canfor Pulp had a net debt approximately at \$860 million and available liquidity of approximately \$655 million. Liquidity improved by approximately \$255 million during the quarter reflecting higher cash earnings, a seasonal unwind of working capital, a tax refund, various cash conservation measures in response to COVID-19, as well as increased and extended banking facilities.

Canfor Pulp ended the second quarter with net cash of \$6 million and available liquidity of approximately \$150 million. Liquidity improved by approximately \$50 million during the quarter supported by a drawdown of accounts receivable balances and partial insurance proceeds related to the Northwood recovery boilers unscheduled outage in the fall of 2018.

Excluding capitalized major maintenance, we currently anticipate the 2020 capital spending will be approximately \$100 million for the lumber segment and \$45 million for Canfor Pulp. The aforementioned insurance proceeds for pulp will be reinvested in that same recovery boiler during an extended scheduled maintenance outage in the fall.

And with that, Don, I will turn the call back over to you. Thank you.



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

Thanks, Alan. So, operator, we're now ready to take questions from the analysts. Thank you.

## Q & A

### Operator

Thank you. We will now take questions from financial analysts. If you have any questions, 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.

I can't hear the question.

### Operator

One second here. Hamir, just one moment.

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

Hi, Don. Can you me?

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

I can hear you now, Hamir.

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

Okay, great. Thanks. So, Don, this lumber rally is getting a lot of comparisons to 2018. What do you think is different this time?

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

The lumber rally compared to 2018?

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

Yes.

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

What the difference? I don't know. For us, I mean I think that, as you look forward here, clearly we know when COVID-19 started to impact us here, I think we saw obviously a significant retreat everywhere as people tried to understand just the severity of things. And I think that compared to 2018 was a completely different situation. So I think with all the reductions in production that we've seen during that

period and now the recovery that we've seen to some degree, I mean it's just been a quite a bit different situation than 2018.

I mean we're still, obviously, Hamir, looking forward here we've still got lots of challenges ahead of us, but I think that some of the fundamentals, particularly on the retail side, continue to look pretty decent, frankly, and better than what we would have expected, and so going forward here, while we're certainly being very, very cautious beyond this quarter, right now we're seeing the results of that right now. So that's what I would maybe comment on that right now.

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

Okay. No, thanks, that's helpful, Don. And just when you look at the capacity that's come out of British Columbia over the last 18 months, in this higher pricing environment what do you see the sort of maybe risk that some of that stuff gets restarted? And if you could speak to maybe how much of that that was removed do you think was taken out permanently.

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

Well, I think that there's been a fair bit removed already. I mean some of the numbers that we've heard are upwards around two billion board feet, right, that's out there. And you've got to remember, most of the production that's come out is due to the mountain pine beetle, right, and what the log supply is going to look like here going forward. We still believe there's another billion board feet that still has to come out, and whether that's this year or that's over the next couple of years, we still believe that that

has to happen. And where that's going to happen in terms of British Columbia, at this point that's probably still up for debate, but that's how we would look at that right now.

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

Great. Thanks. That's helpful. And just the last question for me: Don, we've seen the US delay the next duty revision now by another 60 days. Do you see any risk of commerce just continuing to issue these extensions as we progress?

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

Absolutely. We're in a period of time here where there's not a lot of certainty there at all and I think that the risk of further delays is for sure in our view.

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

Great. That's I had all. I'll turn it over. Thanks, Don.

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

Thanks.

**Operator**

Your next question comes from Sean Steuart of TD Securities. Please go ahead.

**Sean Stuart** — Analyst, TD Securities

Thanks. Good morning, everyone. Following on Hamir's question, Don, I'm wondering if you can comment on your ability to squeeze extra production out of your sawmills, I guess potentially, initially, adding extra shifts across your portfolio, and any broader thoughts you have on how quickly or slowly the industry supply response might come in light of how strong margins are in the sector right now?

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

Yeah. I mean from our standpoint, we're basically now running, other than the Mackenzie sawmill in British Columbia, which is currently down indefinitely, all the rest in British Columbia, certainly in Europe and certainly in the US south are essentially running now at 100% already. So, in terms of ability to increase over and beyond that, will be, to some degree, just based on some of the capital that we've spent to maybe get a bit more out of it, but for the most part, Sean, I would say that we're pretty close to our maximum at this stage, right?

And what was—your second question was...?

**Sean Stuart** — Analyst, TD Securities

Broader thoughts on how the industry might respond with extra supply. I mean it doesn't look like there's any greenfield coming at this point, but potential for brownfield expansion, those sorts of things.

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

Yeah, there might be a little bit here and there. I mean there's still been some capital being spent, I'm sure, everywhere, right? But I would say right now, based on price levels, that our view would be that pretty much everybody's running pretty hard now and running close to capacity. I would definitely— maybe the only caveat might be if there's been some log supply issues in parts of British Columbia potentially, but we're not seeing that ourselves, but perhaps others. But for the most part I would say that there's not a lot of upside here in terms of production levels over and above where we're at and certainly that would be our view.

**Sean Steuart** — Analyst, TD Securities

Okay. A question maybe for Alan, it looks like you are opening up on CapEx a little bit this year versus the initial sort of austerity spending I guess you guys were guiding to in the initial wake of the pandemic. Do you have any sense of how spending might trend in the 2021? I imagine there's room to take it even higher. And then can you give us a bit more detail on the boiler spending program at Northwood? Is that rebuild still in the cards longer term or is what you're doing now just extending the life that much more and you don't have to think about a larger CapEx spend down the road?

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

Thanks and good morning, Sean. So, with respect to your first question around opening up the valves a little bit on capital, I think that's fair to say, but the key words are little bit. We are focused on a couple of very attractive high returning projects, the most notable of which is a second phase at our Camden mill, which is a very high performing mill in the US south.

In the pulp space, our expanded capital in large part reflects some targeted spend on our RB5, which you may recall was the boiler that had the upset in 2018. So, what we're doing there, in essence, is taking the insurance proceeds that that we've received with respect to that claim thus far and focusing on extending the useful life of that RB5. Today we're thinking we'll be able to get between four years and six years more life out of that based on what we know today. We'll have a much better sense of that here before the end of the year. But the intent is to, just to be clear, to extend the useful life of that particular recovery boiler.

In terms of the long term, we've two real options there, Sean, one of which is a brand new recovery boiler, replacing the two that are there today. And the other option is extensive refurbishment of both RB1 and RB5 that's there today. So, both have their merits. One obviously comes with a higher sticker price per se, but we've made no firm decision with respect to either option at this point.

**Sean Stuart** — Analyst, TD Securities

Okay. Thanks very much for that. I'll get back in the queue.

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

Thanks, Sean.

**Operator**

Your next question comes from Paul Quinn of RBC Capital Markets. Paul, please go ahead.

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

Thanks very much. Good morning, guys.

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

Good morning.

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

Good morning, Paul.

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

It seemed like we had lower lumber inventory coming into 2020 and then COVID hit and people retrenched and it seemed like inventory in the channel got even lower. Where are we at right now in terms of versus this time last year or at the start of the year?

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

Yeah, I would say, Paul, I mean I'll let Kevin talk about it more, but we would still think that inventory levels are lower, lower than they were last year and are continuing to be relatively low because the takeaway has been good and so I think we're still in that situation and we'll remain in that situation here for a while, right? And so that's probably what I would say.

Kevin, what are you seeing out there really when you look around the world?



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

For sure in North America lumber inventories are low. If you look at the R&R market segment there, they had that huge demand throughout Q2, and so I think you are still seeing some really strong demand signals there that are really putting pressure on inventories. And then on the new home construction side there, I think folks going into Q2, inventories were relatively balanced, and then as people were going in this unknown situation with COVID and the impact on housing demand, there was a draw on working inventories, and that didn't replenish sufficiently when we saw recovery in May, so North America is still quite lean. I think in Asia inventories are a little bit higher and balanced but in Europe, again, very tight inventories and strong order files. So that would be my assessment on the inventory situation.

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

And Kevin, I think also, wouldn't you say, the home centre demand has been so strong compared to what anybody would have expected, combined with the industrial side with the treaters that it's pretty much—unprecedented may be too strong a word, but it's been extremely strong and much stronger than we ever would have expected, which has really allowed us to extend our order files. Kevin, is that correct?

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

Absolutely. And then under that whole R&R home centre type segment, it's not just the do-it-yourself traditional customer base. It's also that customer base like the pro contractor that's coming in

there and you're seeing more and more investment in people in their homes and into rural environments and so we think that's going to continue to drive demand and keep pressure on inventories.

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

Okay. And then just talking about order files, I mean we've got pretty strong pricing here. How far does your order file go at this point?

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

So, for North America our order files are well into August there, Paul. And in Europe, like I think we mentioned in the opening comments there, order files into pretty much October. And then of course our Asia order files are pretty much locked into Q3 already. So very, very solid order files compared to historical norms.

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

Okay. And then just, you know, recently Vida made acquisitions in Europe. Would it be safe to say that that's a continued area of interest for you guys to continue to grow that platform?

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

Absolutely, Paul. I mean, as we continue to spend more time on Europe and our European business, and from our view there's a tremendous amount of upside there and we're really pleased with

that acquisition and we see much more opportunity to grow in the years ahead there. And the stability in Europe and the business there just continues to be positive and so it's safe to say that we will continue to grow there over time.

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

All right. And then last question just on lumber. Q3 costs with BC stumpage, is that a material change and what do you expect in the quarter?

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

Kevin, do you want to take that one in terms of how—I think Paul's question is looking forward here Q3 with the reductions and so forth, what do we see pricing doing?

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

I think with Q3 we see some pretty strong pricing. We think that's going to relatively continue into September and then beyond that there's a lot of uncertainties but feel that the pricing trend that we're in right now in this range here is going to continue into Q3.

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

Whether it continues or not, Paul, the order files that we've got and, Kevin, I think you could substantiate this for sure, is that we've seen some of the longer order files than we've seen in quite some

time, frankly. In Europe we always have a strong order file, so that's not such a big change potentially or particularly, but certainly in the US and in Canada, both those operations, we've seen order files that typically you don't see in terms of a number of weeks, right? But again, like Kevin mentioned and I think Alan mentioned also, when you get beyond Q3, that's when we're taking a more obviously conservative approach here in terms of where we might see things go.

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

Great. That's all I had. Best of luck, guys. Thanks.

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

All right. Thanks, Paul.

**Operator**

Your next question comes from Mark Wilde of Bank of Montreal. Mark, please go ahead.

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

Good morning, Don. Good morning, Alan.

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

Good morning, Mark.

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

It's a much different situation than we had three months ago.

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

Yeah. That's a good thing, for sure.

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

Yeah. I wanted to start off by just kind of talking about capital allocation priorities. I mean it looks like you're going to throw off a lot, a lot of cash in the third quarter. I'm just curious about how you're thinking about prioritizing that in terms of debt reduction, M&A, share repurchase, special dividend, all the different options there.

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

For sure. Maybe, Alan, I know you've been working a lot on this, why don't you speak to that, to Mark's question?

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

Good morning, Mark. I think we typically have, we've tried to be fairly disciplined as to how we allocate our cash and clearly the challenges have been more pronounced in more recent times. But to answer your question, I think it's fair to say that debt reduction will remain a key area of focus for us. We accept that we took out more debt obviously with respect to the Vida acquisition and to a lesser extent the Elliott acquisition as well, but debt reduction clearly is a top priority for us.

I think on the M&A front, I think what you've seen through the Berg announcement is our desire to be able to take advantage of attractive smaller acquisition targets, but we think those will be more selective and, to Don's earlier point, more targeted, obviously, in Europe and potentially in the US south as well.

And then we've to, obviously, maintain our focus on capital for our existing operations as well, Mark. You appreciate that we've curbed the spend there this year and it's important that we go back to more normalized, targeted, and disciplined spend in that arena as well. So those are the three big areas of focus, I would say, for us as we look out over the balance of the year and indeed into 2021.

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

And Alan, you covered it well there, and I think the thing though, is on the debt reduction piece of all of those areas. Like our focus is going to continue to be—because there's still uncertainty out there for sure, beyond Q3, perhaps even into Q4, but debt reduction is going to continue to be our focus for sure. And then if there's an attractive target, as Alan mentioned, that comes up, we'll look at it in a very specific way, but debt reduction clearly is our number-one focus.

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

Yeah, I'm just, I'm kind of curious on the share repurchase side. I mean it's hard for me to imagine that you can make an acquisition of lumber capacity as cheaply as your own equity right now. Any thoughts on that?

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

Go ahead, Alan.

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

Yes, Mark, I think I'd just echo what I said a few minutes ago. I think we believe there are higher priorities today. And I would say, just in terms of your comment on share repurchasing, I think we're very encouraged by what we see in respect of the Bergs announced acquisition. We believe that the economics of that are very compelling, the synergies are very attractive, and the payback period likewise. So one could one could discuss the merits of both for some time, Mark, but we're very comfortable with what we've outlined as our key priorities certainly for the foreseeable future.

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

Okay. Can we just press on it just a little bit further, because if I go back two years ago, you were buying your stock at almost twice the price it's at today, and so I'm just kind of curious. I mean we're kind

of getting an unexpected windfall and I wonder if there isn't some merit in taking a portion of that windfall and being opportunistic right now about the stock.

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

Maybe not the best forum to have that conversation, but I think the diversification angle that we're taking here, to Don's point earlier in the call, is a key part of really driving value across the company. And we believe that we're seeing the benefits of that through not just more stable earnings but also improved earnings in many parts of our business. So we're comfortable with the approach that we're adopting there. And there's so much uncertainty, Mark, that we'd just do well to be mindful of that as well.

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

Yeah, look, I have no problem with that. I wonder if we can turn to just sort of, as you think about M&A, sort of how do you kind of weigh opportunities in the US south versus kind of opportunities in Europe right now?

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

Alan, you can jump in there too, but I think for right now, I mean we made a year ago or a year and a half ago a pretty significant acquisition to move into Europe. I think that's turning out just exactly the way that we expected it to. And at the same time we've done the same thing in the US south and we're



trying to take an extremely disciplined approach there and trying to focus on companies, and it's why we're focusing on the smaller companies, because we can really target whether it's product mix, whether it's location, but those two areas, and where there's a strong employment base will be the other one. Those, first and foremost.

And as we look forward, I would say that, we would rank Europe or the US south any different. They're both areas that we really believe, on a long-term basis, are going to add to the stability of the Company through that diversification period. And so right now, I mean there's clearly opportunities in both places today that we continually look at, but I would say that we would look at them both as positive opportunities going forward and it'll just depend on which kind of comes up at the time.

But clearly we're really pleased with what we've been able to do in the US south from a regional point of view, from a company point of view, from a people point of view, and exactly the same in Europe. There are some opportunities in Sweden that we are continuing to look at. We've got a very strong management team there, as we do in the US south, and we will just keep assessing it as we go forward here.

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

Okay. And then just on the south, Don, if we go back a couple of years ago, you were looking at that greenfield down near Athens, Georgia. Is a greenfield an option for you if we look out over the next couple of years?

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

Yeah, I think so. I mean it's possible for sure. I mean we're going to grow that business down in the US south. We really like it down there. We've got a very good strong team down there that we're very confident in and comfortable with and they're looking at opportunities all the time. So it's just going to depend. But we do think that, over the next couple of years, as you outlined Mark, there could be that opportunity, but we're not there right now, we're just evaluating some existing companies potentially, but that's where we're at today. But down the road, definitely on the table.

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

Don, is it possible for you guys to talk at all about what you're seeing in terms of imports coming into the US? I think when you get lumber prices up near these levels and you've got a relatively strong US dollar, I always wonder about sort of European imports coming into the East Coast of the US.

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

Yeah. Good question. I'll throw that over to Kevin, because I know he spends a lot of time on that himself and knows all the players very well. So, Kevin, why don't you take that?

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

Sure. Mark, we've seen an increase coming in, especially from Germany and Central Europe given their spruce beetle challenges and their desire to manufacture that as soon as possible, so between China and the Eastern US, those have been big markets for them. And I think we're on track to be about 1.2

billion board feet kind of annualized pace there, Mark. But the Europeans also have other options as well with Europe recovering that's going to keep them engaged, especially in the UK and other parts of Europe. But definitely on the upside, but still within that 1.2, 1.3 range is our expectation for this year.

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

Okay. That's helpful. Last one for me, Don—

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

Sorry, Mark, but just to add to what Kevin said. Kevin, I think would you say though that when that product coming out of Germany and Austria and so forth, in a lot of cases we don't compete with though, right, because of the lower quality of it compared to what you're getting up in the north?

Maybe talk to Mark a bit about that, because there's quite a bit of a difference there from product coming from Central Europe versus coming from Scandinavia.

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

Absolutely. I mean the impacts of the spruce beetle and you start to see those challenges, which is why they have to ship it to different markets like China, and those products don't necessarily go to Japan with higher-valued markets and that's where Scandinavia, the fibre is such that it has to go to more higher-

valued pieces where it's not so easily substitutable. So definitely there's a dynamic playing around with the fibre quality and you just can't say Europe, one paint brush painting all of Europe. There is some changes there. And of course there is some urgency to get at that spruce beetle before it deteriorates even further.

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

Okay. All right. Makes perfect sense. The last one for me, Don, I wondered if you can just talk with us a little bit about where you see kind of the of pulp industry in British Columbia going. We've definitely got constraints on fibre, you've talked about that, and we are clearly heading for some rougher sledding in the global pulp market over the next, at least the next quarter or two.

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

For sure. We've been doing a lot of work on that, particularly Alan and his group there. So maybe, Alan, you can give Mark a bit of an update there in terms of how you're looking at things going forward and particularly in British Columbia around your fibre, or your pulp business?

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

For sure, Mark, and I appreciate the question. It's one that I think every BC pulp producer is getting these days. I mean we're all facing various challenges, many of which are around the fibre set up here. So

a lot of what we're doing today is responding, obviously, not just to the weak markets but to the challenges that we saw through Q2 in the weaker sawmill operating rates. We are focused on making sure that we're going to be able to run our pulp mills, our kraft pulp mills in particular, through the winter. That's step one and I think probably every BC pulp producer is thinking likewise in today's market.

Clearly, fibre is tight and so the onus is on producers like ourselves to be fairly mindful of targeting improved yields, looking for every ounce and ODT or fibre that we can get, so we're working very hard there. I think I've mentioned before that we've secured additional business in the last nine, twelve months. We're pleased with that. Part of the challenge is keeping a lid on the more expensive fibre stream, notably whole log chips, and that's probably our major concern and I would hazard a guess that it's a major concern of many in the BC context. The price of whole log chips delivered to the pulp mills is much higher than it's ever been. So we're working really hard at that. We've got some ideas as to how to drive costs out through capital upgrades and such, but it is a challenge, no question.

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

Do you anticipate, Alan, that we're going to see kind of a contraction in pulp capacity in the BC interior, the northern interior?

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

I can't comment definitively on that, Mark. I think we've clearly seen some curtailments in the BC context and that's not a surprise. We'll just have to wait and see, Mark. It's a fair question; it's just hard

to call it when you look out over the next two years to three years. And certainly if the curtailments and rationalizations continue to occur, I think at minimum you're going to see or have the potential to see more curtailments. That would be certainly one thing that we've seen over the last two years, more curtailments.

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

Okay. All right. Fair enough. I appreciate all the feedback. Thanks, guys.

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

Okay. Thanks, Mark. Take care.

**Operator**

There are no further questions at this time. Please proceed.

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

Hello?

**Operator**

There are no further questions at this time, so you may proceed.

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

Oh, okay. Sorry, I missed you there. So, thanks very much then everyone that joined the call. We appreciate all your support and look forward to working with all of you and speaking with you at the end of Q3. So thanks very much and we'll talk to you soon. Bye-bye.

**Operator**

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