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Fourth Quarter 2019 Results  
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## CORPORATE PARTICIPANTS

**Don Kayne**

*Canfor Corporation & Canfor Pulp— Chief Executive Officer*

**Alan Nicholl**

*Canfor Corporation & Canfor Pulp— Executive Vice President & Chief Financial Officer*

**Stephen Mackie**

*Canfor Corporation — Executive Vice President, North American Operations*

**Kevin Pankratz**

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

**Brian Yuen**

*Canfor Pulp— Vice President of Pulp Sales and Marketing*

## CONFERENCE CALL PARTICIPANTS

**Mark Wilde**

*BMO Capital Markets — Analyst*

**Sean Steuart**

*TD Securities — Analyst*

**Hamir Patel**

*CIBC Capital Markets — Analyst*

**Paul Quinn**

*RBC Capital Markets — Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the Canfor and Canfor Pulp Fourth 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 for joining the Canfor and Canfor Pulp quarter four 2019 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 Q4. Joining Alan and I today are Kevin Pankratz, our Senior Vice President of Sales and Marketing; Stephen Mackie, our Executive Vice President of North American Operations; and Brian Yuen, our Vice President of Pulp Sales and Marketing. I will focus my comments on 2019 as a year, which overall was a very challenging year for both our lumber and our pulp businesses.

Firstly, Canfor Pulp reported an operating loss of \$31 million in 2019. Throughout the year, we experienced decreasing availability of chips and increasing cost due to the significant sawmill curtailments in British Columbia, while global pulp prices fell sharply over the course of the year, reflecting elevated inventory levels and weaker global demand in certain regions.

Following the market-driven downtime taken in the latter half of 2019, our focus is on optimizing our production performance, reducing overall cost, and maximizing fibre utilization in the coming months as we look to fully capitalize on the projected improvement in market conditions in 2020 and 2021. While global pulp markets are projected to remain challenging for the first half of 2020, market conditions and prices should gradually improve in the back half of the year as global inventories continues to become more balanced with demand.

For Canfor overall, we reported an operating loss of \$294 million in 2019. The very difficult operating results overshadow the transformational global diversification undertaken by the company during the year with the acquisition of Vida and further expansion in the US south with the Elliott Sawmill acquisition in Estill, South Carolina. We are already starting to leverage benefits from this diversification strategy while maintaining focus on improving productivity, maximizing fibre utilization, and reducing costs and debt levels, so we are well positioned to fully capitalize as market conditions improve.

Our BC operations continue to face several challenges; however, we remain focused on working diligently to minimize the financial impacts of these constraints on our BC operations and our overall business. Global lumber markets showed a modest improvement late in 2019, particularly the US. Demand in China was weaker, but Japanese sales rebounded in the second half of the year after a relatively slow

start. European lumber demand was also subdued due to global and regional issues, but our operations performed well in the year, generating EBITDA of \$112 million in 2019. We expect government's approval of the Vavenby tenure sale in Q1.

Looking ahead, the recovery in the US housing market is expected to continue into 2020 and the repair and remodel markets appears to be steady as well with increases also expected in 2020. While supply from Europe to North America is increasing and there has been new US South sawmill capacity added, albeit much less than forecast, we don't expect this additional supply to outpace increased demand in the coming year. Overseas markets are forecasted to be mixed with Japan and our European markets improving modestly. On the other hand, we expect China to continue to be challenging owing to increasing amounts of European fibre as well as the coronavirus impact, which is currently impacting the country. We continue to monitor the coronavirus and expect it to have an overall impact on lumber and pulp demand, particularly in China and Southeast Asia. Additionally, recent blockades of Canadian rail infrastructure have impacted our supply chains and we will be monitoring those events closely and implementing mitigating actions to the extent possible.

The US Commerce Department released a revised duty rate calculation for Canfor in January, which, when finalized, would reduce our cash deposit rate from 20.5% to 4.6% as a result of the first administrative review. Until the dispute is resolved, Commerce will continue to do annual reviews of the duties with a cash deposit rate reset at that time. Until there's a settlement, we will not receive a refund of any duty amounts.

Lastly, despite it being a very challenging year, to say the least, we are thankful and grateful for the support, the commitment, and the dedication of our excellent employees, our contractor base, and of course the communities that we operate in.

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.

As Don mentioned, the Canfor and Canfor Pulp annual and quarterly results were released yesterday afternoon. These results come together with our overview slide presentation in the investor relations section of the respective companies' websites. In my comments this morning, I'll expand on a number of Don's points and also speak specifically to several quarterly financial highlights.

Our lumber segment reported an operating loss of \$27 million for Q4 compared to a loss of \$67 million for the previous quarter. Results included a net duty expense of \$44 million, restructuring costs of \$3 million, and a \$17 million reversal of a previously recorded inventory write-down provision. After adjusting for these items, the lumber operating loss was \$3 million.

In Western Canada, operations continued to be impacted by prolonged market and fibre related challenges despite a moderate uptick in US housing activity towards the end of the year, which contributed to a 7% increase in pricing for most Western SPF dimensions. The company's US South operations experienced a more challenging quarter in Q4 as a result of moderately lower prices across

most grades, as well as the impact of capital-related downtime at several of its operations. Our European lumber business continued to generate solid financial results, notwithstanding a modest decline in European benchmark prices during the fourth quarter. Seasonally higher production volumes and a market-related decline in unit log costs contributed to lower unit manufacturing costs.

In early 2020, the US Department of Commerce announced preliminary results for the 2017 and 2018 first period of review. Based on the preliminary determination, the company anticipates a material reduction in its duty deposit rates effective in the third quarter of 2020 and a corresponding recovery of approximately \$217 million, reflecting differences between the current cash deposit rate and the preliminary rates as determined in the first period of review. Of this recovery, approximately \$77 million has been previously recognized in the company's financial statements based on management's estimated ADD accrual rate over the first period of review.

Our pulp business reported an operating loss of \$24 million in the fourth quarter compared to a loss of \$44 million reported in the third quarter with the results continuing to reflect weak global pulp pricing. While purchasing activity from China picked up during the quarter, weaker prices in North America and Europe contributed to a modest decline in average sales realizations compared to the third quarter. Pulp production was up 64% in the fourth quarter following the market-related curtailments taken in Q3. Fibre costs showed a small decrease quarter over quarter with the impact of lower market prices for sawmill residual chips (tied to pulp prices) helping to neutralize the effect of an increased proportion of higher cost whole log chips.

Capital spending for the fourth quarter totalled approximately \$70 million and included \$43 million in lumber and \$27 million in Canfor Pulp. Total spend in 2019 was just over \$300 million and included \$200 million in the lumber business and \$103 million in Canfor Pulp. Excluding pulp capitalized major maintenance in 2020, we currently anticipate capital spending of approximately \$150 million in 2020 following the completion of our US\$125 million organic growth program and several other major upgrades in early 2020.

At the end of the fourth quarter Canfor, excluding Canfor Pulp, had net debt of approximately \$960 million and available liquidity of close to \$380 million. Canfor Pulp ended its fourth quarter with net debt of \$58 million with available liquidity of \$83 million.

And lastly, Canfor Pulp's directors approved a continuance of a quarterly dividend of \$0.0625 per share for the fourth quarter.

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

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

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

## 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 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 Wilde** — Analyst, BMO Capital Markets

I wondered just to start, Don, if it's possible to just get kind of a current read on conditions in the lumber market. And I guess I'm interested in your kind of thoughts on final demand on where inventory sits and then the impact of transportation issues and what seems like a little warmer than normal winter in terms of their impact on the market.

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

For sure, Mark. I'll try to do my best on those four comments or questions there for sure. I mean I think, clearly, the recovery that we've seen in North America has taken longer than we expected to start with. I mean clearly, I don't know whether we all misread it or what, but for the prices to move up like

they have done recently has taken quite a bit longer than we expected. We felt throughout the year that demand was increasing and I think we've seen that throughout the year. It's been slow to get going, but certainly in the last four or five months it's picked up quite a bit. And we're seeing that move on into Q1 2020, which is positive, and you would have seen the housing start numbers and the permit numbers all look pretty good.

The only real negative on the demand side, or not so much negative, just really uncertain at this time, is what's going on with the coronavirus and what that's really going to do to supply chains worldwide. And that applies to pulp and for lumber. That's something that we're keeping our eyes on every day and actually every minute. And then, of course, what's happening here in terms of some of the blockades. I mean those are a couple of current issues that we're faced with. But overall demand, I think, has been relatively good.

On the supply side, clearly that's taken longer to show an impact as well and I think that played out really with inventory levels being a bit higher than what we would have expected them to be throughout the year. We do think we are making progress though on that now and I would say now that inventory in the supply chain, notwithstanding some of the supply chain current issues, is relatively low across the space. And I would say that pretty much on the retail side as well as on the builder side and I think that's helping us as well. So, if you look at it overall, I think we're setting up pretty good here with inventories as low as they've been for some time and looking forward into the spring here with the typical building seasons that we should see, and combined with a relatively mild winter, as you mentioned, Mark, it's setting up not to be too bad for sure. I guess that would be my comments on that.

In terms of transportation, I mean that's always a challenge. It's a challenge right now with the blockades, as you know. We're keeping our eye on that. We're doing a lot more trucking, clearly, to try and mitigate it as best we can, but I guess time will tell how much the impact will be.

**Mark Wilde** — Analyst, BMO Capital Markets

I guess, Don, I'm just asking you to make kind of a subjective judgment, but two years ago clearly transportation was a big factor in the run-up in lumber prices. I'm just trying to get some sense of—do you think this is having a material impact right now?

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

On the transportation?

**Mark Wilde** — Analyst, BMO Capital Markets

Yeah.

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

Yeah, not all that much, no.

**Mark Wilde** — Analyst, BMO Capital Markets

Okay. And then just switching gears, I wondered if you could talk a little bit about what's inside that \$40 million cost takeout program over at Canfor Pulp?

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

Yeah, maybe I'll let Alan speak to that and...

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

Good morning, Mark. Absolutely. So, this is something that the team has been very focused on as we ended 2019, recognizing the challenges we faced. And just as a matter of note, we have been encouraged by some of the progress we've made on the fibre side.

But as we look forward, we're clearly motivated to generate free cash flow through the trough as well as obviously during the cycle. So, the \$40 million really is targeted a lot around improved operational reliability and all of the benefits you get from that, from stable production, as well as targeting improved usage of chemicals and hog fuel, and very much targeted on improving fibre yields as well. So, those are the main themes. Overhead cost reduction is in there as well and we're clearly motivated to look closely at that.

**Mark Wilde** — Analyst, BMO Capital Markets

Okay. And then I noticed that announcement, I think, at Crofton the other day about their closure because of the lack of fibre supply. I'm just curious, if we look out the next two to five years, how do you feel about fibre supply for your pulp mills in the province?

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

Yeah, it's a very good question and from our perspective I think we clearly had some shocks to the system last year, as I mentioned a few minutes ago. And where we're comforted here, Mark, is that we've made some headway in securing additional fibre supply, particularly in the second half of last year, and we've tied a lot of that fibre up to long-term contracts, which gives us increased security around the sawmill residual volume in particular. But we've also been able to secure respectable volumes of more high cost whole log chips, admittedly. So, we're feeling pretty good as we look out the next couple of years. We have a few contingency plans in case there is more rationalization, but right now we're feeling pretty good about it, not contemplating any material curtailments or anything like that in the foreseeable future.

**Mark Wilde** — Analyst, BMO Capital Markets

Okay. And then just finally on the supply side, lumber wise up in BC, can you give us some sense of where you think we're at in terms of kind of rationalizing lumber supply so that it matches up with available wood supply in the province and also whether you think that the lower duties will bring any supply back into the market?

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

I'll let Stephen talk about that, but just before, I've got a couple of quick things.

First of all, as we've said all along, I mean this has been evolving over a number of years, as a result of the beetle, and I think that we're going to clearly need to see more rationalization in British Columbia. No question about that. Where it's going and how many it's going to be at this stage of the game, we're probably not 100% sure where that's going to play out. But I do believe that we're going to see more mills that need to shut, over and above our Vavenby operation for sure, and so I think that's going to happen. And there's no question about that. And then we've also got the spruce beetle and there are some challenges with the spruce beetle too.

But maybe, Stephen, you're much closer to that and probably have some more to add to that.

**Stephen Mackie** — Executive Vice President, North American Operations, Canfor Corporation

Sure, Don. Good morning, Mark. I mean I think you did cover it well, Don.

I think the way we would characterize it, Mark, is that we've not yet seen the full impact of rationalization across the BC operating landscape. We saw a lot of activity last year, some permanent, some temporary, and obviously we've got more to do there, we think, as an industry, and there is certainly capacity that's still got to come out to align with the available sustainable and economically viable long-term timber supply. So, we would expect more and that's probably about all I would say at this point.

**Mark Wilde** — Analyst, BMO Capital Markets

Okay. And then just on the lower duties?

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

Whether the lower duties are going to allow more mills to maybe operate or increase capacity—is that what you're getting at?

**Mark Wilde** — Analyst, BMO Capital Markets

Yes.

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

Really, the issue now is not so much the market levels, it's availability of fibre, and that's a constraint that we've never seen before, and so I think that's going to be a huge limiting factor as we move forward, Mark. That is going to really limit any upside opportunities to increase capacity anywhere. I mean there's just no fibre.

**Mark Wilde** — Analyst, BMO Capital Markets

Okay. That's great. I'll turn it over.

**Operator**

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

**Sean Steuart** — Analyst, TD Securities

Thanks. Good morning, guys. A few questions, Vida to start with. Maybe help me connect the dots on the Q4 results. It looks like your price realizations from Europe sequentially were down quite a bit more than the benchmark price that you quote in the MD&A. I'm hoping you can give us some context there.

And then following on that, it still looks like the EBITDA margins were really robust and I gather that's partly better productivity and lower fibre costs, but I wonder if there's anything else that fed into those strong margins despite prices weakening.

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

Yeah, maybe just quickly, and I'll turn it over to Alan here, but I think in Vida, a couple of things that are important is to know is we've had, over the quarter, solid improvement on the cost side, for sure. No question about that. So, some of that increased benefit would have come from that. Yeah, definitely prices are off to some degree for sure, you know, just based what's going on globally through the quarter, but some of that's been obviously a lot more positive now and similar to what's happening in North America. But the bulk of the work has been accomplished there; the difference has been on the cost side.

Alan, is that...?

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

Yeah, I think. So, Sean, again, we're just struggling just tie in some of your comments around the middle of that. Certainly there was a modest reduction in realizations but, as a general statement, we continue to see more moderate price movements in that region. But what more than offset was the higher production volumes, obviously, after the seasonal downtime in Q3, with very strong productivity and also reduced log costs as well that somewhat reflected market conditions in that area as well.



**Sean Steuart** — Analyst, TD Securities

And I mean it looks to us that you out-produced your stated capacity there. Is there an updated capacity number for Vida we should be thinking about?

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

Well, I appreciate you noticing that, Sean. I think we've guided to close to 1.2 billion board feet here for 2020 and beyond as a kind of modified capacity number.

**Sean Steuart** — Analyst, TD Securities

Okay. That helps. Alan, the CapEx number for 2020, can you give us the split between pulp and lumber this year?

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

Yeah, it is pretty similar to where it was for 2019. So, about two-thirds of it is really pertaining to the lumber segment and one-third for pulp.

**Sean Steuart** — Analyst, TD Securities

Okay. That's all I have for right now. I'll get back in queue. Thank you.

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

Thanks, Sean.

**Operator**

Thank you. The next question comes from Hamir Patel from CIBC. Please go ahead.

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

Hi. Good morning. Don, could you give us a sense as to how your R&R volumes into the big box channel have been faring this year and maybe what sort of volume growth they're pointing you to for the full year?

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

For sure, Hamir. Kevin is really close to that and has been doing a lot of work around that, so maybe, Kevin, you can comment to Hamir on that.

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

Sure, Hamir. Good morning. Actually, we had a fairly steady year in 2019 with about 6% to 7% growth in volume and our outlook for 2020 is still to be in that 4% to 6% growth in volume.

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

Okay, great. Thanks for that, Kevin. And the next question I had was about, you know, you referenced mass timber demand in the MD&A. How meaningful could that be in the next two years and how are you positioning your mills to kind of service that growth?

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

Yeah, we're really encouraged with the development of the mass timber in that new space, especially as it's into non-residential, and we see it as all incremental demand that we would not have previously participated in. And it's going to—it's still early days and a lot of it's into projects at schools and public structures, and so we are participating in it and we see that growing over the next two years and we're quite optimistic about that segment.

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

Maybe, Kevin, the only thing that might be worth mentioning too, Hamir, is around how we're viewing the future demand of mass timber in North America, leaving out Europe, obviously. But if you were to ask us at the Softwood Lumber Board, who does a lot of work around that, we see the potential here to be close to five billion feet and we're running right now around 1.2 billion, 1.4 billion kind of thing.

But what's really encouraging to me and I think to the industry guys that I speak with, Hamir, is around the type of customer base that we're having to deal with now. And you start to talk about some of these global brands like Microsoft and Amazon and Wal-Mart and Lendlease out of Australia, which is one of the biggest developers in the world, you're talking about some pretty high level of customers that we're all learning to deal with. But you start to get them behind it, like we're seeing, the upside is I don't

think any of us is going to really predict where it might end up here. And it's not going to be tomorrow, but if you think about, you roll that out over the next two, three years, which is a timeframe you indicated, it looks pretty darn positive from our standpoint, Hamir.

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

Great. Thanks, Don. That's really helpful. And just switching to the pulp side, I was wondering if we can get an update on how the JV with Licella is going and, you know, just generally what initiatives do you have underway to increase the sort of bioproducts that you can get out of the pulp mills.

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

So, Hamir, it's tunneling on. It's moving steadily on, as you probably will have noted from our disclosure. We are in a pre-feasibility study phase and that's where the focus is today. The one cautionary note around the pulp JV right now is more around the fibre availability just given the landscape in British Columbia and that's something, obviously, that we're working through right now. But lots of positive developments in that biofuel space, to your point, and we're very keen to participate in that in the way that hopefully can forward the business.

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

Great. Thanks, Alan. Just a final one for me. The release mentioned you're assessing long-term recovery boiler options at Northwood. Can you speak to what those various options would be, what sort

of capital investment could be required there, and would we expect to get some volume gains with that as well?

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

So, it's a good question. So, as we **guided before**, we are looking at longer-term solutions to the recovery boiler situation that we have at Northwood. Currently, we have two recovery boilers there today. So, the options include repurposing and refurbishing both those boilers or building one major new boiler that would replace the two currently existing ones there as well. So, lots of work is being undertaken into looking at both those options. Both of them are strategic, long term in nature, but we are planning to make a decision around those in the next 12 to 18, 24 months, Hamir.

In terms of cost, it's really hard to put a firm number on it, but, you know, depending on which of those two options you go, you could be talking anything between \$150 million, \$200 million and upwards, right? And so that's clearly one of the areas we're very mindful of as we look at this and obviously doing the right thing. The new one, if we do go down that path, obviously would bring additional benefits, but we're still working through there as well. So, you would get additional benefits attached to the higher spend.

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

Okay, great. Thanks, Alan. That is all I had. I'll turn it over.

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

Thanks, Hamir.

**Operator**

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.

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

Good morning, Paul.

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

We expected weak southern yellow pine prices in Q4, but they seem to be, you know, continue to be weak here and only just started to pick up. Is that surprising you and what are you expecting going forward?

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

Go ahead, Kevin.

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

Sure. Good morning, Paul. Yeah, we did see that weakening in pricing in Q4. When you start looking at the southern yellow pine production, which I think has increased, I think it was like 1.9% year over year, and the bulk of that really occurred in November and December, so I think some of the increased supply is what we're seeing and some of the results of that.

However, when you start looking at the breakdown of the width, we're starting to see improvements on the wides, on the 2x8, 2x10, 2x12, and so we are starting to see that last couple of weeks outside of January. And also, looking forward, I don't know if you're aware, but there's some news that lumber out of the US will be part of the duty reductions in China and that should play out in Q2. So currently it's 25% and there's an opportunity for that to get diminished down to zero or some kind of phased out approach. So, that should help support the southern yellow pine pricing as we go forward.

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

Okay. So, just trying to understand this export comment. You described export to China as being pretty difficult given the slowing economy there and the coronavirus, but I guess with the duties coming down you expect more exports out of southern yellow pine in containers to China despite that?

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

Yeah. I mean as soon as the virus gets contained, we've got some pretty good demand and interest. And our customer base is actually quite encouraged with this latest announcement. So I think long term and then hopefully later into Q2, we should see some of that demand. And we've already got interest for

orders already this week in anticipation of this, so we are starting to see that actually translate into commerce.

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

Okay. So maybe helps you out in the second half of the year. In the short term here, do you think there's a risk of increased European imports as they get backed up, you know, not able to get to China and come into North America?

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

I mean we're seeing a little bit of, of course, that European supply coming into the US and I think there's a limit to the upside on that, but we're also participating in that from our Vida operations and we see that as an opportunity to expand markets and participate in markets that we couldn't otherwise be in.

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

You know, if you think of that, too, right, Kevin, we were talking about this, because there's been a lot of chatter over the last while about all these European imports over the last 12 to 18 months, what was going to happen, and even a best case scenario, still 50% of what it was at the peak in 2005. So, is it going to increase? Yeah, probably. But it's still a long way off what we've seen and had experienced with before.



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

Yeah, I would note that starts in 2005 were a little bit higher than they are right now though, so. Demand was higher. Maybe just on Vida, you've seen prices come down but the margins seem to be pretty robust. What is the anticipation for 2020 given the increased lumber production coming out of Europe for the salvage side?

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

Yeah, so I think, today I think our team are quietly optimistic as they look forward. Clearly, prices are a little lower today, as we mentioned earlier, but we're quietly hopeful of price gains here as we get into the second quarter and then continuing to ride that wave, hopefully, for the balance of the year. So, certainly a pretty respectable outlook, Paul.

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

Okay. And then just lastly in lumber, on the capacity curtailments or capacity reduction that needs to come out of the BC interior, I mean we saw a material move in that in 2019, I don't know, somewhere around 2.5 billion. How much more do you think needs to come out?

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

Go ahead, Stephen.

**Stephen Mackie** — Executive Vice President, North American Operations, Canfor Corporation

Good morning, Paul. I stayed away from an actual number in this question earlier, but there's still a significant component. So, I think when you look at the impacts of the mountain pine beetle, the wildfires, some of the spruce bark beetle implications, as well as we've got other constraints on land base, some of those being announced today in terms of caribou recovery plans and stuff that will impact available timber supply in the Northeast, I think we need to see at least another billion board feet equivalent come out. And that will happen. The timing on that will be yet to be determined, but probably at least another billion feet, Paul.

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

Oh, excellent. Okay, thanks for that. And then just maybe switching over to the pulp side, you mentioned that you've got some additional sawmill residuals secured at the end of 2019. Just wondering how much volume that is and what's the length of those contracts.

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

Yeah, we can't go into specific contract details, you'll appreciate that, Paul, but in total we got the equivalent of two sawmills volumes in the fourth quarter, in addition to locking out our current existing volumes to longer-term deals as well.

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

Okay. And then just seeing the maintenance schedule on the pulp side, just nothing for PG pulp and paper because of the long outage in Q3 last year?

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

Yeah, it's really a function of our 18 months turnaround. It's just a function of timing, Paul.

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

Okay. Excellent. Thanks very much, guys. Best of luck.

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

Thanks, Paul.

**Operator**

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

**Mark Wilde** — Analyst, BMO Capital Markets

Thanks. Hey, Don, I wondered can you just help us with this, the central European spruce beetle, the impact on both Vida and potentially on North American operations. And I guess one of the questions I have around this is if this beetle kill lumber comes to North America, are there any limitations in terms

of what it can be used for? Could it be used for any building product at all? Would it meet spec? Would it meet code?

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

Yeah, I think, certainly, less will meet code than if it wasn't beetle killed. But just like we experienced here in North America, going back with the beetle, at the end of the day, mostly will be for construction use, right, where we really saw the impact in BC and it will be the same for them, which, actually, of course, will help Vida, and I'll get to that in a second. But just from an appearance standpoint, for J-Grade, A, which it wouldn't probably be used for, but for appearance grade for home centers or whatnot it would be a challenge because of the blue stain and the checking and all the same defects that we see here. So the application probably would be mostly for industrial items, crating and all that kind of stuff, or for new home construction. And to some degree, maybe some R&R, but for the most part those are what it would be used for.

And because Sweden, as you know, they're mostly small landowners there and they do a much better job or they do a very good job of managing that, their land base there, compared to others because of that, and so we haven't seen any real impact whatsoever from the beetle in any of our operating areas and don't really expect to see any because of that. We've got a lot of capability there, as you've seen with some of the numbers in terms of the high-value side, which really got us interested in Vida in the first place is the way they can differentiate out of the commodity business. So actually for us it's going to be a real advantage here for Vida because there's going to be less high grade available in Europe overall, because a lot of that in the past used to come from central Europe, not only from northern Europe.

**Mark Wilde** — Analyst, BMO Capital Markets

Okay. And then it sounded like you guys saw a pickup in kind of incremental supply coming out of the US south in the fourth quarter. I know some of the projects down there have had start-up issues, so if we just think sort of year on year in 2020, how much would you expect kind of the US south production can go up?

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

Stephen, you've been doing some work on that, why don't you talk to Mark about that?

**Stephen Mackie** — Executive Vice President, North American Operations, Canfor Corporation

Yes, sure, Mark. I mean the US south in total or Canfor specific?

**Mark Wilde** — Analyst, BMO Capital Markets

For the region as a whole.

**Stephen Mackie** — Executive Vice President, North American Operations, Canfor Corporation

Yeah, we think that the capacity has been slower coming online in the US South than maybe anticipated. These capital projects, as I think we have all experienced, they're more challenging than maybe you'd hoped that they would be, take longer to execute, certainly lead times from vendors and contractors have presented some challenges down there. And with the significant capacity adds across the industry with really the whole industry doing major capital projects, it has caused some delays, for

sure, not only for us but I think for the industry. We're largely through our organic capital growth plans now and we're encouraged about just executing well and really giving the teams an opportunity to run and realize the benefits that we've expected out of those projects and we're going to, you know, we'd expect our numbers to go up 4% or 5%. I think that the industry could be in that range probably, Mark, overall.

**Mark Wilde** — Analyst, BMO Capital Markets

Okay. All right. That's helpful. The last one from me, we've had a lot of wet weather in the south recently, I wondered if there's any impact you're seeing on kind of logging and log supply.

**Stephen Mackie** — Executive Vice President, North American Operations, Canfor Corporation

Yeah, for sure, it's been incredibly wet down there and we are seeing some tightness in supply. But overall, in terms of our regions, we're in pretty good shape. We've got adequate timber supply. But we are seeing that pop up for some others down there that there's a tightness in supply.

**Mark Wilde** — Analyst, BMO Capital Markets

Does that translate to log prices?

**Stephen Mackie** — Executive Vice President, North American Operations, Canfor Corporation

No. You know, we're pretty flat still. Again, in our operating regions, we've got significant available supply and our expectations are still for modest increase in log costs in the US South but really quite flat overall.

**Mark Wilde** — Analyst, BMO Capital Markets

Okay. Super. That is helpful. Good luck this year, guys.

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

Thanks, Mark.

**Operator**

Thank you. There are no further questions. I will now turn it back over for closing remarks.

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

All right. Thanks, operator, and thanks to everyone that joined the call and we very much appreciate your support and we will look forward to talking to you at the end of Q1. Thanks very much.

**Operator**

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