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FINAL TRANSCRIPT

Canfor Corporation

Canfor and Canfor Pulp Q4 2021 Results Conference Call

Event Date/Time: March 2, 2022 — 11:00 a.m. E.T.

Length: 35 minutes

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RBC — Analyst

PRESENTATION

Operator

Good morning. My name is Miranda, and I will be your conference Operator today.

Welcome to Canfor and Canfor Pulp Fourth Quarter Analyst Call. All lines have been placed on mute to prevent any background noise.

During this call, Canfor and Canfor Pulp's Chief Executive Officer will be referring to a slide presentation that is available on the Investor Relations section of the Companies' 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 would now like to turn the call 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 and Canfor Pulp, Canfor Corporation

Okay. Thank you, Operator, and good morning, everyone, and thanks for joining the Canfor and Canfor Pulp Q4 2021 Results Conference Call.

I'll make a few comments before I turn things over to Pat Elliot, our Chief Financial Officer of Canfor Corporation and Canfor Pulp, and our Senior Vice President of Sustainability. Pat will provide a more detailed overview of our performance in Q4. In addition to Pat, we are joined by Kevin Pankratz, Senior Vice President of Sales.

I want to start by recognizing all of our employees across the organization who, in the face of many challenges, including the pandemic and significant supply chain challenges—our employees demonstrated exceptional resilience and dedication, and they were key to our success in 2021.

We continued to deliver on our strategy during the year, and I would like to highlight just a few key areas.

In October, we announced our bold ambition to become a global leader in sustainability. I'd like to thank everyone across the organization who is contributing to setting and achieving our sustainability goals. This is a team effort, and it's great to see the support it's receiving from our employees.

One area of focus over the last few months has been working to develop our carbon target, which we expect to announce in Q2. We are pleased that forest products are increasingly being recognized for how they help mitigate climate change as the world moves away from fossil fuel-based products. In October, we announced our planned investment in a new biofuel plant in Prince George through our Arbios joint venture, and progress continues to be made towards construction of the facility.

In 2021, we continued our focus on global diversification and successfully executed on several strategic initiatives, announcing plans to construct the state-of-the-art greenfield sawmill in Louisiana, completing a number of organic capital investments, purchased an additional operation in Sweden, and concluded an agreement for the purchase of Millar Western solid wood assets.

Since 2018, and including Millar Western, Canfor has added 2.2 billion board feet in annual production capacity through our $1.2 billion of investments and acquisitions, which have been focused mostly in the US South, Europe, and in Alberta. A much more globally diversified operating footprint is ensuring that we are able to provide exceptional service to our global customers as we navigate the many challenges throughout the supply chain, and this was evident in Q4. We are continuing to assess additional organic and value-added external growth opportunities as we look to grow our lumber business globally.

In terms of our results, our lumber business benefitted from record-high pricing and strong operational performance during 2021, with operating income of $2.2 billion before adjusting items. In the fourth quarter, our lumber business operating income before adjusted items was $273 million, supported by continued strong results in Europe. Despite extreme volatility experienced during the year, lumber demand far exceeded available supply, resulting in unprecedented price increases and record-high earnings for our lumber operations.

While our operations benefitted from favourable market conditions, we faced a number of significant challenges during the year, including extreme wildfires, historic flooding, the impact of COVID-19, along with the many supply chain issues. As a result of these challenges, as well as ongoing uncertainty associated with fibre supply in British Columbia, many of our sawmills were on reduced operating schedules during the third and fourth quarter.

BC continues to be a challenging jurisdiction to operate in due to a smaller fibre basket as we enter the post-mountain pine beetle era, in addition to significant uncertainty brought on by several new and proposed policy changes, land-use decisions, and legal decisions.

A few weeks ago, we announced the difficult decision to permanently reduce the production capacity at our Plateau facility to align production capacity with the sustainable fibre supply in the region. We regret the impact this decision will have on our employees, and we are committed to supporting those impacted through the transition, including providing jobs to those who would like to stay with Canfor.

We also announced a $14 million investment in Plateau to improve manufacturing flexibility and lumber recovery, and better align the manufacturing capabilities of the Plateau operation with existing fibre supply.

While these closure decisions are difficult, we remain focused on enhancing value and maximizing returns from our fibre basket in British Columbia, ensuring the long-term success of our operations with a footprint that aligns with available, economically viable fibre.

We continue to work with government and our Indigenous partners to ensure a sustainable, globally competitive forest sector in BC and are pleased to announce our intent to sell our Mackenzie tenure to the McLeod Lake Indian Band and Tsay Keh Dene Nation, which provides an opportunity to grow the Nation's leadership in the forest economy and stewardship opportunities within their traditional territories.

Turning to Canfor Pulp, 2021 was more challenging, particularly in the second half of the year, due to significant transportation delays related to the extreme weather in British Columbia, COVID-19, production downtime, and weakness in the global pulp markets.

Before taking account of an asset impairment charge that Pat will speak to, Canfor Pulp had operating income of $32 million in 2021, with an operating loss of $41 million in the fourth quarter as a result of significant downtime associated with supply chain constraints, as well as the ongoing repairs to Northwood's recovery boiler number one.

While pulp markets have improved significantly in early 2022, Canfor Pulp continues to be impacted by ongoing supply chain challenges. With our major maintenance on Northwood's recovery boiler progressing as scheduled, on time and on budget, we remain focused on improving operational reliability, closely managing costs, and maximizing fibre utilization going forward.

Lastly, I would like to thank Alan Nicholl, who, after 14 years with Canfor, will be leaving the Company this month. Alan will continue to serve as President and CEO of Arbios and has taken on the role of Managing Director with Licella Holdings, our partner in the Arbios joint venture.

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

Pat Elliot — Chief Financial Officer, Canfor and Canfor Pulp, and Senior Vice President, Sustainability, Canfor Corporation

Thanks, Don, and good morning, everyone. The Canfor and Canfor Pulp quarterly results were released yesterday afternoon and come together with an overview slide presentation in the Investor Relations section of the respective Companies' websites.

In my comments this morning, I'll speak to quarterly and annual financial highlights, a summary of which is included in our overview slide presentation.

As Don has already mentioned, 2021 was an exceptional year for Canfor. In the face of significant weather and supply chain challenges, we saw the benefit of our diversification strategy with our global lumber platform generating unprecedented earnings during the year. We are pleased to have executed on a number of strategic initiatives during the year, supported by our strong balance sheet and record earnings.

Capital expenditures were approximately $430 million in 2021, which included $83 million for our greenfield sawmill, as well as various organic growth initiatives, largely undertaken in the US South and Europe. Our greenfield mill is progressing well but due to a challenging supply chain is slightly behind schedule and is anticipated to start up in early 2023.

We repurchased approximately $20 million of shares during the year and repaid over $420 million of term debt, ending the year with net cash of $1.1 billion.

Looking ahead to 2022, we currently anticipate capital spending of approximately $430 million in the lumber segment and have just completed the Millar Western acquisition yesterday for $420 million, including target working capital of $56 million.

For Canfor Pulp, we are forecasting $70 million in spending, including approximately $30 million towards ongoing repairs to Northwood's recovery boiler number one.

In addition to an expanded capital program in 2022, we continue to look at several organic and external growth opportunities and plan to restart our share buyback program and anticipate moderate, opportunistic use during the year.

Turning to our quarterly results, our lumber segment generated operating income of $273 million in the fourth quarter before adjusting for an asset impairment charge of approximately $200 million.

Results in the fourth quarter benefitted from continued strong earnings in Europe, with our European operations contributing approximately 50 percent of our lumber segment earnings for the second consecutive quarter. In 2021, EBITDA from our European operations was approximately $630 million.

In North America, our results reflected the impact of reduced operating rates, with production and shipment volumes well below the previous quarter due to significant supply chain challenges, severe flooding in British Columbia, and reduced trucking availability in the US South. Log costs in Western Canada also reflected moderately higher market-based stumpage.

While pricing in North America increased significantly as the quarter progressed, offshore sales realizations declined following the record-high prices experienced in Q3. Due to timing of shipments versus orders, the surge in lumber prices towards the end of the fourth quarter will largely be realized in early 2022.

As noted, we reduced the net book value of both our lumber and pulp assets in British Columbia following an impairment test completed in accordance with IFRS. This nearly $300 million charge reflects the rightsizing of our balance sheet to reflect the reduced availability of fibre supply in certain regions of British Columbia.

Our pulp business had an operating loss of $41 million in the fourth quarter before adjusting for the asset impairment charge of $95 million. Results in our pulp business reflects the weaker global pulp market conditions, as well as the impact of severe flooding in British Columbia, which crippled transportation networks and resulted in significant operational downtime during the quarter.

In addition, Canfor Pulp announced extended capital-related downtime at Northwood. The rebuild of the lower portion of the recovery boiler number one is going well, and the mill is expected to return to full production at the end of Q1.

While global pulp markets have improved significantly in early 2022, Canfor Pulp continues to be impacted by ongoing transportation challenges, with a significant lag in sales realizations anticipated in the first quarter.

As the rebuild of RB1 approaches completion, Canfor Pulp is focused on improving operational reliability, improving fibre yields, and reducing and stabilizing manufacturing costs.

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

Don Kayne

All right. Thanks, Pat. So, Operator, we're now able to take questions from analysts.

Q&A

Operator

Right. We will now take questions from the financial analysts. If you have a question, please press *, 1 on your telephone keypad. If you're using a speakerphone, please lift your receiver and then press *, 1. If at any time you wish to cancel your question, please press *, 2. Please press *, 1 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 is going to be coming from Hamir Patel from CIBC Capital Markets. Please go ahead.

Hamir Patel — CIBC Capital Markets

Hi. Good morning. Don, your outlook was pointing to some near-term pressure in R&R. I was just curious, what are you hearing from your home centre customers about on maybe a full-year basis in 2022, how do they see volumes playing out this year versus last year?

Don Kayne

Yep. Thanks, Hamir. And I'll let Kevin talk about that, because it actually quite promising, actually, for 2022. But, Kevin, you go ahead and talk about it.

Kevin Pankratz — Senior Vice President of Sales and Marketing, Canfor Corporation

Hamir, maybe just a bit of a background there. We actually ended Q4 with some beyond seasonal norm takeaways in the R&R segment, which was really encouraging. And we actually saw that continue and in the year to date so far. So I would say, year to date, we are experiencing, basically, very similar numbers to last year, and which is still obviously encouraging. And it may be difficult to predict how it's going to go for the balance of the year as prices trend up. But at current prices and the current indicators we're seeing today, we're seeing pretty good takeaway.

Hamir Patel

And, Kevin—

Don Kayne

Could be global.

Hamir Patel

—do you have a sense as to where inventories are in the channel?

Kevin Pankratz

I would say that they're improving. We had, obviously, some real challenges early this year and struggling to keep up, but we did. And I think the BC transportation challenges are well documented, but we're very fortunate that with our VIDA Swedish footprint were able to offset some of that pressure by increasing shipments from there into the Eastern Seaboard.

Hamir Patel

Great. Thanks, Kevin. And, Don, I wanted to ask in Europe with the war in Ukraine and sanctions against Russia, do you see that effectively pushing Canadian producers out of China, as trade flows readjust? And are you seeing any upward movement in product pricing yet in Europe?

Don Kayne

Yeah. For sure, and it's a good question. And I think, first of all, in China, as it used to be a significant part of our business, and while it still is, is down significantly from where it was at the peak, right? If you just talk about the Ukraine situation real quickly, our view right now is, first of all, Russia's about 12 percent of the global softwood production to start with. And of course, most of that production, or a good part of it is heavy to Western Russia. And Siberia ships into China, and that will no doubt increase, we think, for sure, but that's okay.

What we're more thinking about the impacts in a positive way will be around the log supply to the Baltics, which is a major region, as well as the Middle East, North Africa, South Korea. All those regions rely on Russia for a lot of logs, and that's going to probably dry up to some degree, which creates an opportunity here in Europe for us from a pricing point of view. I mean, we think that our European business there is going to be able to pick up a lot of that lack of Russia's supply into Europe. So we're looking—we think that'll be beneficial.

We haven't really seen any price increases to speak of yet. It's been more just maintaining where we're at. But, I mean, the real question's going to be down the road here what kind of impact here over the next two, three, four months. But we do believe on a at least short term that it'll be beneficial to some degree, potentially, from a price point of view just because of that lack of product coming in from Russia into main—into Central Europe, right? But that's kind of how we're seeing it.

Now I guess the other thing we might say, Kevin, would be too is that the European producers that were shipping into North America in a big way will probably revert back and try to fill that demand with Russia exiting Europe to some degree. And that should help, actually, stabilize prices even better here in North America.

Hamir Patel

Okay. Great. Thanks. That's all I had. I'll get back in the queue.

Don Kayne

Thanks.

Operator

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

Sean Steuart — TD Securities

Thanks. Good morning, everyone. Pat, I'll start with you. Can you give us context on specific assets that were written down in the provisions in lumber and pulp with those write-downs this quarter?

Pat Elliott

Sean, it's more of a general provision across the BC assets. We don't specify by mill site, so it's across the fleet. And we basically look at a discounted cash flow over a number of years across that whole fleet and then we compare that back against the book value, and that's the adjustment. It's not as specific as a mill-level adjustment.

Sean Steuart

Okay. All right. Thanks for that. US South platform, you guys referenced some timber cost inflation; your competitors did as well. Can you help us understand how much of this do you think is temporary, related to weather or transportation disruptions? How much might be structural? What are you thinking going forward for that cost line item?

Don Kayne

Yeah. Well, I think it's in the neighbourhood of probably 5 percent is what we sort of guided before, roughly, what we see overall for this year. But largely, the issues that we have is what you've outlined there, weather-wise, trucking. The availability of trucking is a big one, which is really labour, I guess, overall. So all of those things have contributed to some of that inflation that we're seeing here. But really, it varies a lot depending on the regions, as well, across the US South, so. So overall maybe a little bit of it's structural, but there's a lot of it just strictly caused by some of those unusual events.

Sean Steuart

Okay. Thanks, Don. Last question for now. I know there's a lot of moving pieces, but if you normalize for the Millar Western acquisition, I'm just trying to gauge in Q1 how your Western Canadian lumber production is trending versus what we would have seen in Q4? It sounds like there's still a lot of challenges getting wood into the mills, getting the product to market. Can you give any sense of how that's trended versus what we just saw for the fourth quarter for you guys?

Don Kayne

Go ahead, Pat.

Pat Elliott

Sean, I can take that. I mean, clearly, in BC in Q4 we're running our business at 80 percent in British Columbia for the most part, and we took some Christmas downtime as well. So right there, you're going to have a big lift.

And then, we're going to add the Alberta assets, 630 million feet on an annualized basis. We are having some shipping challenges out of BC. I think we are going to build some inventory in the first quarter. Hard to quantify that, but I would say we'd be up substantially, quarter over quarter.

Sean Steuart

Okay. All right. That's encouraging. That's all I have for now. Thanks, guys.

Don Kayne

All right. Thanks, Sean.

Operator

Your next question will come from Mark Wilde from BMO. Please go ahead.

Mark Wilde — BMO

Good morning, Don, Kevin, Pat.

Don Kayne

Good morning, Mark.

Pat Elliott

Good morning, Mark.

Mark Wilde

To start off, either Don or Kevin, can you give us some sense of what the inventories look like at your sawmills in Western Canada right now, just given these transportation issues?

Kevin Pankratz

Yeah. For sure. So maybe, I'll just do it by region there a bit there, Mark. So I think in Europe, it's actually that they're all in balance, normal inventory levels. And the transportation to date has been quite fluid; I would say is a similar situation for the US South, where we're right in line. We haven't had the same challenges.

But in Western Canada, we are up for sure, just really struggling with—railcar supply is the biggest challenge, trying to help offset that a little bit with trucks and, of course, the backup on the marine with containers. So we are up—we're definitely up above where we expect, and it's probably going to take us by the end of Q2 to get it back down to normalized levels.

Mark Wilde

Any way to quantify kind of what that increase might look like, Kevin?

Kevin Pankratz

You know, it's kind of fluid, so all I know is it's going to be up there, Mark. I can't really give a specific number.

Mark Wilde

Okay. All right. Next question, just it seemed like when I read through the MD&A, there was more in there on the longer-term challenges to fibre supply, including for the pulp mills. So I wondered if you could just shed some more general light on your thinking around the four existing pulp mills?

Don Kayne

For sure. And I think, Mark, and we've talked about this a little bit just in the context of BC fibre supply, period, not really singling out, necessarily, a pulp mill particularly. But just looking at overall fibre supply because in British Columbia, we do believe there's going to continue to be pressure there on a downwards direction here in terms of overall fibre supply and, as a result of that, probably another couple of billion board feet of lumber that is going to need to be reduced here in British Columbia. Just face the facts, and that's due to beetle, it's due to forest fires, it's due to policy, just a bunch of different things and I think we've mentioned that before.

But in addition to that, and as a result of that, clearly, there's going to be less residual fibre as well. So there's going to be an impact here in BC, over the next several years, could be one, two, three years —but over that time frame, we're going to see some challenges on some of the secondary manufacturing facilities, I'm sure. In addition to that, a pulp mill or two, perhaps—probably—our view right now probably would be more like one, depending on the size. And that's kind of how we see it, which is probably no surprise because that's kind of been what we've been saying here for awhile.

Mark Wilde

Yeah. And, Don, without putting like—trying to get too granular on this but just when we think about your own pulp footprint and the fact that you're putting a lot of capital into Northwood, I think, tells us that you view that mill as a long-term asset. Is that fair?

Don Kayne

Yeah. That is very fair.

Mark Wilde

Then, and would it also be fair to say, to Taylor when you used to report it separately, seemed like it was only kind of marginally profitable, you've taken downtime right there—at that mill right now. Is that probably the one that faces the greatest challenge, in your view, of your portfolio?

Don Kayne

Yeah. I mean it's the different type of—it's BCTMP as versus NBSK.

Mark Wilde

Right.

Don Kayne

And clearly, there are more challenges there, for sure, from a fibre point of view, but also from, more importantly, from a market point of view, too, and I think in both cases. And so we—but as it stands right now, the six weeks that we've announced is the temporary downtime is still in place, and we haven't made any further decisions over and above that going forward.

Mark Wilde

Yeah. Okay. And then just turning to this whole fibre supply issue on the lumber side. I mean, you were—you've been quite proactive here. You announced the Plateau moves in the midst of really good lumber markets. Do you think the sort of additional 2 billion board feet you talked about—is that going to come easily? Or is that going to take a significant downturn in the market to drive that out of the market, just in your view?

Don Kayne

Well, I think, clearly, the downturn could—if there was a serious downturn, that would probably accelerate that in some areas, for sure. But I think—I mean, again, we've just got to kind of face the facts as an industry, there's going to be less fibre available going forward, which is going to be the bulk of the reason why. Obviously, low prices might accelerate that, though, like I said.

Mark Wilde

Okay. And then if we look past kind of the Monday closing on Millar Western, you're still sitting on a lot of cash and it looks like you're going to generate a lot of cash in the first half of the year. Can you just give us some sense for the priorities for the cash? And then, within the M&A bucket of priorities, if you could just give us some sense of what you might be most interested in, from both kind of a location and a market perspective?

Don Kayne

Sure, Mark. I mean, as Pat mentioned, we're basically, between the Millar Western and some of the capital that we've identified for this year, is close to $900 million that we're spending, just with those two areas alone.

Over and above that, certainly, we've got some projects this year from a sustaining capital point of view, and it's underway, as well as we've still got some ongoing organic capital projects that we have also—we'll continue to be working on this year and going forward as well. We've got the greenfield project, of course, going on at DeRidder. And as we look forward here, maybe could be some opportunity there for one or two, or whatever more there too, not only in the US South but could be in Europe as well.

In addition to that, just on opportunities, though, I think we also have been pretty clear, and we haven't really changed, other than maybe a bit more—well, the US South for sure is a key area for us, and it's going to—we still believe it's a really solid area. We like it down there, as you know, and we see opportunities there going forward.

In Europe, same thing. I mean Europe's been really, really good, probably much better than we even expected, and we always thought it was going to be good.

And then, of course, Alberta and we know this latest deal. We really feel pretty fortunate we were able to get the Millar Western assets. We like Alberta, we've always liked Alberta, and that's a new growth area for us as well that we're pretty pleased with.

Mark Wilde

Okay. And you've got a little position in engineered wood. I'm just curious whether you're thinking about going beyond lumber and, perhaps, growing in the engineered wood area?

Don Kayne

Yeah. For sure, it's something that we look at regularly. I know Kevin and his group, and Stephen and his group are looking at that on an ongoing basis. We definitely like the position we have at glulam in the South with the two mills. We have a large market share. We have a fantastic product. And we've had—frankly, had lots of interest there from other companies interested in them. But we do believe it's a core business for us for the future, and something that we can leverage and increase as we look forward.

Mark Wilde

Okay. Very good. I'll turn it over. Thanks, Don.

Don Kayne

Okay. No problem. See you, Mark.

Operator

Your next question comes from Paul Quinn with RBC. Please go ahead.

Paul Quinn — RBC

Yeah. Thanks, guys. Just a couple questions, one on the CapEx budget of $500 million. Just on the pulp and lumber side, if you could split that down between what is maintenance there and what is strategic or project work?

Don Kayne

Yeah. Sure. Well maybe, Pat, do you want to—

Pat Elliott

Yeah. So sorry, you're asking for maintenance versus sort of strategic fall within the bucket?

Paul Quinn

Yep.

Pat Elliott

Yeah. So the $430 million, it's—I don't know—we've got the $200 million, or probably the sustaining CapEx on the lumber side. And then on pulp, it's probably $30 million to $40 million. There's a bigger number around RB1 this year, but it's $30 million to $40 million, Paul, as sort of sustaining CapEx.

Paul Quinn

Okay. So then, if you got $200 million on sustaining on the lumber, that extra $230 million that you're going to be spending, what's left on DeRidder? Is that about $80 million? And what's the balance? Where are you spending the balance?

Pat Elliott

Yeah. It's about $100 million on DeRidder. That's left a little bit more than $100 million, and then just a number of sort of optimization projects throughout the fleet. I mean, we're investing in both sides of the border, actually, right now. I mean, we mentioned Plateau as an investment. So there's a series of sort of smaller investments there, Paul, that are just focused on continuing the lines upgrades to the assets. But there's nothing as large as the greenfield in that mix.

Paul Quinn

Okay. And then, congratulations on the potential sale of Mackenzie. Have you got a fibre supply chip agreement with the potential new owners there?

Don Kayne

No. Not at this point, we don't. But it's certainly something that we would be investigating as we look forward, though. But at this point, we don't.

Paul Quinn

Okay. And then Europe you mentioned $630 million in EBITDA in '21. How do you see '22 here? Is it going to be a pretty similar year?

Don Kayne

You know, it's shaping up to be pretty darn good year, for sure. So we'll see how it plays out here going forward. There's obviously a lot of geopolitical, that we've talked about here earlier, that may have some influence but, for the most part, that business is solid. It's very sound. And the upside there, in our view, is definitely positive, for sure. And so, you know, but, obviously, it depends a bit on price and what prices do here, back half of the year more. But we're not concerned at all about Q1 and Q2 there because they basically lock their business in, as you know, quite a bit longer than they do in North America. Right? So it's the back half of the year, in every case, that creates a little more conservatism, for sure.

Paul Quinn

Great. We have a pretty good view on North American lumber prices. Maybe you can help us out with what's happening in Europe with a little bit more granularity, given our muted outlook there?

Kevin Pankratz

Okay. Sure.

Don Kayne

Kevin, why don't you take that?

Kevin Pankratz

Sure. I can try to give it a stab there, Paul. So, I mean, it's a lot of different markets that they serve there, right? Like I think VIDA alone serves about 44 different countries. But the big one is obviously the UK market, and we did see softness in Q4 and early into Q1. But we are anticipating some modest increases in Q1, but more material increases in Q2 because they basically didn't really replenish a lot of inventories in that Q1 period. So could prices be in that 10 percent, 10-plus percent range there, Paul? And then also Central Europe for the same reason, so that's more of a Q2 guidance.

And then, like Don said, on the back half, it's a lot of—there's a lot of risk and uncertainties, obviously, with the Ukraine situation that could be short term. Potentially tighter supply would also have corresponding inflationary pricing. But the longer-term impact, whether it's supply chain, logistical challenges, all of that, it's just a few unknowns, but just may be tempering and moderating in the back half.

Paul Quinn

Okay. Thanks for that. And just last one on capital allocation. A lot of your peers have been buying back shares. You guys look particularly inexpensive and just wondering why you don't see Canfor shares as a buy right now?

Don Kayne

Pat's going to buy a few. Go ahead.

Pat Elliott

Yeah. So I did mention in my comments, Paul, we are going to restart a buyback. We shut it off in the fall because we were working on the Millar Western deal, but yeah. I mean we'll continue to have, I think, a small program. I mean, we acknowledge the value that sits in our shares right now, and we'll continue to selectively acquire some of those, and we'll start that again here before too long.

Paul Quinn

All right. That's all I had. Thanks, guys.

Don Kayne

Thanks, Paul. See you.

Pat Elliott

Thanks, Paul.

Operator

Your next question comes from Mark Wilde from BMO. Please go ahead.

Mark Wilde

Yeah. Just a couple of follow-ons. One, I wonder, Pat, if you could help us at all with just sort of the Q1 flowthrough from both lumber prices and pulp prices? I think when you talked about pulp, you suggested that there were going to be some delays in these higher pulp prices rolling through, I assume because of kind of transportation delays.

Pat Elliott

Yeah. On the pulp side, I mean, I think we see more than a 45-day lag in the prices. Depending on the markets, it could be almost double that, I think. And on lumber, we mentioned in our comments, we really did not realize any of the upswing in the price in the fourth quarter. The bulk of that's going to be Q1, a lot, particularly, in Canada. Our offshore markets actually trended down after having record-high offshore price in Q3. So we'll see all those prices move up relatively—into January, we'll be realizing those on lumber. It'll take to February, March before we realize them on—realize those in pulp.

Mark Wilde

Okay. And then, Don, one other question. I'm just curious, given your non-integrated experience now, which is growing in the Southern US and in Sweden, has this prompted any rethink on sort of the need for vertical integration in Western Canada?

Don Kayne

Well, maybe to get the last part of that? I didn't really catch that. If the vertical integration in Western Canada versus the South?

Mark Wilde

Yeah. I mean, basically, you operate on a non-integrated basis between lumber and the chip, where the chips go, in both the South and in Sweden. And in Western Canada, you're integrated, in that you're supplying your residual chips to your pulp mills. So I wonder, given the experience in the South, given the experience in Sweden, does that make you rethink the strategy in Western Canada at all?

Don Kayne

Yeah. I don't think so. I mean not at this stage. Pat, is there anything you want to add to that?

Pat Elliott

Yeah. The procurement in BC is different than in the US South and Sweden. I mean the tenure management and even just the way the stands are here, mixed stands, you know, having that pulp and lumber business together has created significant fibre synergies over the years in Canada. I mean in the US, it's a different procurement strategy that we employ.

So, I mean, I think we've always seen the benefit of the integrated business. And I mean, even if we weren't—even if we weren't the owners of the pulp business, Mark, I think we'd have a strong fibre supply arrangement with the pulp business because it's symbiotic, if you follow me.

Mark Wilde

Yeah.

Mark Wilde

Okay. And, Pat, just to be clear, the Millar Western residuals, those will continue to flow to the Millar Western pulp mill. Is that a safe assumption?

Pat Elliott

That's correct. Yeah.

Mark Wilde

Okay. All right. Very good. I'll turn it over.

Don Kayne

Thanks, Mark.

Operator

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

Don Kayne

All right. Thanks, Operator. All right. Thanks, Operator, and thanks, everyone, for joining the call, and we look forward to talking at the end of Q1. Thanks again.

Operator

That concludes our conference call for today. You may disconnect your line.