

## Canfor Corporation

Second Quarter 2019 Results Conference Call

Event Date/Time: July 26, 2019 — 11:00 a.m. E.T.

Length: 29 minutes

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## **CORPORATE PARTICIPANTS**

### **Donald Kayne**

*Canfor Corporation & Canfor Pulp — Chief Executive Officer*

### **Alan Nicholl**

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

### **Stephen Mackie**

*Canfor Corporation — Senior Vice President, Canadian Operations*

### **Kevin Pankratz**

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

### **Brian Yuen**

*Canfor Pulp — Vice President, Pulp & Paper Sales & Marketing*

## **CONFERENCE CALL PARTICIPANTS**

### **Mark Wilde**

*BMO Capital Markets — Analyst*

### **Sean Steuart**

*TD Securities — Analyst*

### **Paul Quinn**

*RBC Capital Markets — Analyst*

## PRESENTATION

### Operator

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

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Thank you, Operator, and good morning. Thank you for joining the Canfor and Canfor Pulp Q2 2019 Results Conference Call. I'll make a few comments before I turn things over to Alan Nicholl, Executive Vice President of Canfor Pulp Operations and Chief Financial Officer of Canfor Corporation and Canfor Pulp. Alan will provide a more detailed overview of our performance in quarter two.

Joining Alan and I today are Kevin Pankratz, Senior Vice President of Sales and Marketing; Stephen Mackie, Senior Vice President of Canadian Operations; and Brian Yuen, Vice President of Pulp Sales and Marketing.

Starting with our pulp business, our mills delivered solid operating and financial performance in Q2, despite continued elevated global pulp inventory levels. However, as the quarter progressed, prices declined as a result of a sharp decline in demand, combined with above normal inventory levels in several key markets. The resulting price erosion, combined with the effects of widespread sawmill curtailments in the British Columbia Interior, put a major strain on fibre supply in the Interior of B.C., and led to our decision to take phased curtailments over the summer at Northwood, PGI, and Taylor. These curtailments will assist us in achieving sufficient chip supply through the fall and the winter. In addition, we expect to see a modest increase in pulp prices in Q4 and into 2020 as global inventory levels move back into balance, which will support improved earnings in the fourth quarter.

Moving to lumber, I'll start with our B.C. business, which continues to face significant challenges due to very high log costs and depressed market pricing. This has resulted in significant curtailments in the B.C. industry, including Canfor.

In June we announced that our Vavenby mill will be permanently closing, and announced an agreement to sell our forest tenure in Vavenby to Interfor for \$60 million. The tenure transfer is subject to approval by the Minister of Forests, and we are working to meet all obligations for a closing in Q3.

Also in June, we announced significant curtailments at all but one of our B.C. sawmills. The majority of the downtime was in June and July, and will result in reduced supply of approximately 200 million board feet. Last week, we also made the difficult decision to indefinitely curtail our Mackenzie mill and permanently reduce our Isle Pierre mill from two shifts to one. This will enable Isle Pierre to better align its production capacity with a sustainable high-quality fibre supply in the region. We deeply regret the impact all of these closures and curtailment announcements are having on our employees,

contractors, families, and the local communities. This is a very difficult time for our people and the communities, and we thank them for their dedication and support through these difficult times.

At our current operating rate, our regional production exposure is 45 percent in British Columbia, 5 percent in Alberta, 32 percent in the U.S. South, and 18 percent in Europe.

SPF pricing continues to be weak as the market continues to be oversupplied. We believe that many of the permanent curtailments announced in the last number of months are just now becoming effective. As a result, we forecast that supply will be at a much-improved balance later in the year. In addition, the very wet weather conditions which were pervasive across much of North America over the winter and spring appear to be improving, and we anticipate increased demand in the fall. These two factors lead us to believe pricing for SPF will show a gradual improvement over the balance of the year.

Housing starts have remained challenging due to an acute shortage of labour; however, we believe market participants are actively working to develop labour solutions in order to meet underlying demand.

Offshore markets have suffered from high inventory levels as well, and pricing has also been relatively weak. We expect that to resolve over the course of the next number of months, particularly in Japan. Demand in pricing in China is expected to improve towards the end of the year. Southern yellow pine prices faced less of a supply issue and have rebounded somewhat in recent weeks as demand has improved.

Our European business continues to run very profitably, consistent with levels seen in 2018, and we expect European SPF prices to moderate slightly in Q3 and Q4, driven by the weakness experienced in other markets, but this will be somewhat offset by lower log costs.

At the end of May, we closed the first phase of the Elliott acquisition and we now have a 49 percent ownership position in that company, and expect to complete the final phase in May of 2020.

We remain focused on continuing to reduce our debt levels and continuing to strengthen our balance sheet. Overall, despite the challenges we're experiencing in British Columbia, we continue to expect gradual improvement over the year, and we will continue to benefit from our geographic and product diversification.

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

**Alan Nicholl** – Chief Financial Officer & Executive Vice President, Finance, Canfor Corporation and Canfor Pulp Products, Inc.

Thanks, Don, and good morning, everyone. As Don mentioned, the Canfor and Canfor Pulp quarterly results were released yesterday afternoon. These results come together with our quarterly overview slide presentation in the Investor Relations section of the respective Company's websites. In my comments, 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 \$61 million for Q2, an improvement of \$17 million from the previous quarter. Results included a net duty expense of \$45 million, restructuring cost of \$12 million, and a \$25 million reversal of a previously recorded inventory write-down provision. After taking account of these items, our operating loss was \$29 million.

Lumber segment results in Q2 continued to reflect challenging market conditions and elevated log costs in British Columbia. The Company took close to 150 million board feet of curtailment in B.C., and announced additional permanent and temporary reductions in Q3, as Don has outlined.

Average Western SPF sales realizations reflected a 10 percent decline in pricing across most dimensions. This more than offset modestly lower unit log costs and a seasonal decline in cash conversion costs.

For the U.S. South, record rainfall and severe flooding across that region delayed the start of the typically busy spring construction season, tempering demand and contributing to lower lumber sales realizations in the quarter. Despite these conditions, however, our U.S. South operations continued to deliver solid results again this quarter.

As Don also mentioned, our newly acquired European Lumber business performed well in Q2, with lumber prices and demand remaining relatively stable in that region. Operating income before amortization in the quarter was over \$30 million before adjusting for acquisition-related items.

Our Pulp business also had a solid quarter in Q2, with Canfor Pulp reporting operating income of \$18 million. After adjusting for an inventory write-down at period end, the Company reported operating income of \$32 million for Q2, an improvement of \$14 million from the previous quarter.

Our manufacturing costs benefited from improved operating rates at our mills, and also reflect the scheduled maintenance outages at Intercon and Taylor.

Average pulp sales realizations showed a moderate decline quarter-over-quarter, but prices deteriorated as the quarter progressed, with prices in China falling 17 percent through May and June in response to significantly lower demand and continued elevated inventory levels. Most of the effects of this price erosion will be reflected in our Q3 results, given the timing of shipments versus orders.

The tough market and fibre-related conditions resulted in us implementing phased summer curtailments at our Intercon and Northwood NBSK mills and Taylor BCTMP mill, reducing Q3 production by an estimated 75,000 tons of NBSK pulp and 25,000 tons of BCTMP, respectively. Yesterday we announced an extension of our curtailment at Taylor until September 9, further reducing BCTMP production by 25,000 tons.

Capital spending for the second quarter totalled approximately \$82 million, and included approximately \$58 million in the lumber business and \$24 million in Canfor Pulp. For 2019, we're currently anticipating total capital spend of approximately \$185 million for Canfor and \$95 million for Canfor Pulp. We anticipate much lower capital spending in 2020 following the completion of several major upgrades and projects in both companies in 2019.

At the end of the second quarter, Canfor, excluding Canfor Pulp, had net debt of approximately \$960 million and available liquidity of \$290 million. Canfor Pulp ended the second quarter with zero net debt, with available liquidity of just under \$100 million.

Lastly, Canfor Pulp's Directors approved the continuance of a quarterly dividend of \$0.0625 per share for the second quarter yesterday.

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

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

All right, thanks, Alan. Operator, we're now ready to take questions from 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 is from Mark Wilde from BMO Capital Markets. Please go ahead.

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

Morning, Don. Morning, Alan.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Good morning.

**Alan Nicholl** – Chief Financial Officer & Executive Vice President, Finance, Canfor Corporation and Canfor Pulp Products, Inc.

Good morning, Mark.

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

I want to thank you guys for including more VIDA details in the commentary this time around. I wondered, just starting on VIDA, if you could give us some sense of the impact of those VIDA outages on the third quarter financials. It looks like it's about three weeks across the system there?

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

That'd be about right, Mark, for sure, for the most part. Yes, close to three weeks. Probably, the second half impact that we're—just from a revenue standpoint, we believe is going to probably reduce the revenue by about 5 percent. That's what we're—at this stage of the game, that's what we're anticipating.

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

What about just the financial impact from having them out, because it's basically a quarter of the quarter. Do you take all of the hit on that in the third quarter, or do you amortize those summer outage costs across the year?

**Alan Nicholl** – Chief Financial Officer & Executive Vice President, Finance, Canfor Corporation and Canfor Pulp Products, Inc.

Yes, largely it'll be borne in the third quarter. I think for your purposes, to do what you're suggesting, I think it's appropriate. About a third would be a reasonable assumption, a third of the quarter, that is.

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

Yes, okay. Then just in addition, we've been thinking about VIDA as doing something around \$145 million for the full year. Is that still a good number based on what you see right now for '19?

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

Yes, so the way I'd answer that, Mark, is certainly for the first half of 2019, our results are very consistent with that number that you mentioned. We do see, as Don mentioned, a little bit of pressure on the pricing side. We will hopefully get some abatement on the log cost side, so maybe a little bit less than that. But certainly for the first half of this year, we're very much in line.

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

Okay. Then turning to the Pulp business, I just wondered, given the closures that we're seeing in terms of the sawmills up in B.C., Don, does this change the competitive landscape for the Western Canadian Pulp business, and do you foresee downsizing in the industry as a result of lower fibre availability?

**Alan Nicholl** – Chief Financial Officer & Executive Vice President, Finance, Canfor Corporation and Canfor Pulp Products, Inc.

Yes, it's a fair question, Mark. I mean, I think there are commentators out there that are indicating there have to be at least one or two pulp mills that have to close in B.C. That's consistent with curtailments that many expect for the lumber business.

For us right now, as you know, we've taken the downtime that we've announced, and that's really principally to make sure that we have sufficient fibre, competitive prices to run through the following winter. We feel we're in a reasonably good position there, but clearly, no one's immune from the impacts and the risk associated with the lumber market curtailments and the landscape there.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Mark, if you look at the lumber side of it, I mean, clearly what we're seeing in terms of reductions already and what we expect to go forward, which—not only we have a view, but also there's been a lot of external views from different consultants in terms of the numbers, which seem to be increasing. Clearly, there's going to be ramifications for some of the—probably one or two higher cost pulp mills as well, potentially, down the road here. That would be our view.

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

Okay. Then finally for me, I wondered if you can just update us on capital spending plans in light of the soft markets right now, whether you've pulled back at all. Maybe include in that commentary kind of where we're at, vis-à-vis that greenfield that you had talked about in the southern U.S.?

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Okay, we'll deal with the greenfield first and then I'll get Alan to give you a little more colour around that capital this year and then what we're thinking about next year. I think I got the easier question.

But in terms of Washington, Georgia which I think you're referring to...

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

Yes.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Right now yes, we still have that on hold for the time being. At this stage, it really hasn't—it's not really on our radar screen at all right now. We've got some other priorities that we're working on. Down the road here, we'll probably look at that again, but it'll be, certainly, well into 2020, even before we start to even look at that again for the time being.

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

Okay.

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

Yes. Just in terms of spend, Mark, as you probably picked up in my comments, we do see our spending lower in 2020, both for lumber and pulp, and that, for the most part, is reflecting the completion of, in the case of pulp, a number of bigger projects. We still have one that's going to be done here in the spring.

I think in terms of lumber, we're well advanced in terms of that organic growth initiative on the U.S. side, so we do see a natural opportunity to pare back. To your point with the market conditions as they are, I think that the total capital spend number's going to be a lot closer to \$200 million, which is where it's at today. That's our current thinking, anyway.

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

Okay, that's helpful. I'll turn it over.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

All right, thanks, Mark.

**Operator**

Thank you. Your next question is from Sean Steuart from TD. Please go ahead.

**Sean Steuart** — Analyst, TD Securities

Thanks, good morning, guys. A few questions: The lumber unit costs actually trended a little better than we expected when you back out the duties and inventory revaluation. You referenced, in the

MD&A, some log cost relief in Western Canada, which, I guess, I was a little surprised by. Can you quantify that this quarter, and give us a sense of how quickly the July stumpage hike will roll through your second half results, I guess, according to your logging schedule? Any sense you can give us there.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

For sure, Sean. Maybe, Stephen, you can—we've been doing a lot of work on that, you have been, so go ahead and give Sean an update on that one.

**Stephen Mackie** — Senior Vice President, Canadian Operations, Canfor Corporation

Sure. Good morning, Sean. Just with respect to log costs and some of the relief that we're seeing, obviously with, as Don talked about, all of the capacity downtime that we've seen, so we have seen some moderation or softening in purchase wood markets, slightly down; it depends on a region-by-region basis, but we're seeing a bit of softening in timber bid behaviour. We're also benefiting from significant working capital and high log inventories as a result of some of the capacity outages. So while we did see that significant stumpage increase effective July 1, we haven't seen that hit really into our results yet, and we've got sufficient inventories going into the back half of this year.

We do expect continued upward pressure until we see the full effects of rationalization across B.C. We've got fibre spike constraints that are still driving costs up, but we are seeing some moderation there, if that helps.

**Sean Stuart** — Analyst, TD Securities

Okay. That does help, thanks, Stephen. One follow-up on VIDA as well. I just want to make sure I'm looking at this, and I appreciate the context you're giving us on the results in the report. It looks to me like your average price realizations quarter-over-quarter dropped by about CA\$70 per 1,000 board feet. I guess some of that is the timing of the acquisition closing and maybe a few other items. But maybe you can help connect the dots there, because it doesn't sound like markets were off that much in Europe.

The pressure you're expecting through the second half of the year, can you give us any context in percentage terms how much you're anticipating there?

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Alan, why don't you go ahead?

**Alan Nicholl** – Chief Financial Officer & Executive Vice President, Finance, Canfor Corporation and Canfor Pulp Products, Inc.

We can maybe chat a little bit offline, in terms of some specifics to your question there, Sean. But there was a modest reduction in sales realizations. It wasn't a very significant amount, because, as we mentioned, prices stayed relatively stable there. Overall, I think we didn't see an appreciable decline there, so we maybe need to have a little chat just to kind of figure out where you're stating your numbers.

**Sean Stuart** — Analyst, TD Securities

Okay. The magnitude of weakness you're expecting through the second half, any sense you can give us there?

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

But earlier on—the second half of this year, we believe, we'll be off about 5 percent on pricing.

**Sean Steuart** — Analyst, TD Securities

Okay.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

But we do believe, though, there'll be some offset there on log prices, too, because unlike North America, or at least not as much in North America, in Europe, you tend to—when revenue goes up, you tend to see log costs go up to some degree, and when revenue goes down, you tend to see log prices go down, so your margin is probably more protected than what it is in North America. At least, that's what we've seen over a number of years.

**Sean Steuart** — Analyst, TD Securities

Okay. That's all I have. Thanks very much, guys.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Okay, thanks, Sean.

**Operator**

Thank you. Your next question is from Paul Quinn from RBC Capital Markets. Please go ahead.

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

Yes, thanks very much, and good morning, guys.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Morning, Paul.

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

Good morning, Paul.

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

Just following up on this fibre—I guess, fibre into the pulp mill availability. Can you remind us what Canfor is supplying to Canfor Pulp in terms of fibre availability, and is this materially going to shift with your round of curtailment announcements?

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

I'm going to let Alan talk to that.

**Alan Nicholl** – Chief Financial Officer & Executive Vice President, Finance, Canfor Corporation and Canfor Pulp Products, Inc.

Yes, so, Paul, typically Canfor supplies between 60 percent and 65 percent of Canfor Pulp's requirements, so clearly, there's some correlation with curtailments that we've been taking. Having said that, as we mentioned in our press release, we have pretty reasonable cost options in terms of whole log chips with our chip plant that's quite adjacent to our Northwood mill, in particular. So there's a number of things that we've been doing, clearly, to mitigate the actions there.

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

Okay, then just on the curtailments themselves. It sounds like, from my perspective, you guys have done just a huge amount of the heavy lifting required to balance out this B.C. log availability versus log demand side. Is it surprising you that we haven't seen, I guess, some of the smaller privates take out some capacity, given where pricing is and where their mill economics are?

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Yes, I don't know if we're surprised or not. I think at the end of the day, we've tried to just really focus—maybe unlike the past, but really focus on what's the best economic footprint in British Columbia for ourselves. That's what we've been focused on more than ever, and we really—and as we absolutely tried it, not worry too much what anyone else is doing. I mean, we've got lots of work to do ourselves, so that's where we have been spending our time, Paul.

But I do think, as we go forward here, that we would expect, though—particularly the companies that don't have a lot of fibre security or self-sufficiency, that they'll be having to make some of the tough decisions that some of the other companies have already made. We think that'll happen. Our expectation would be over the next, probably 30 days, 60 days that we'll start to see some of that, perhaps.

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

Okay, that's fair. Then I guess, we talk a lot about B.C. log costs, but you've got a mill in Alberta. Maybe you could just give us an idea of what you're seeing there in terms of relative log costs, and then what you're seeing on the inflation side.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Sure. Stephen, why don't you...?

**Stephen Mackie** — Senior Vice President, Canadian Operations, Canfor Corporation

Yes, sure. Good morning, Paul. I'm probably not going to give you as much as you'd like there, but I'd maybe suggest that it's definitely lower log costs in Alberta. We're really pleased with our Alberta operation, could use a couple more of them. But relative to British Columbia, certainly, the costs are far more competitive, and we're pretty happy with our position in Alberta.

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

Then, are you seeing any kind of log price inflation there, or—how sensitive is that Alberta log pricing model, or stumpage model, to lumber prices and demand?

**Stephen Mackie** — Senior Vice President, Canadian Operations, Canfor Corporation

Yes, it's far as I think you probably know, Paul, I mean, it's far more responsive to the lumber market and quicker reaction in terms of the current market condition, so we're seeing better stumpage in Alberta than currently we're facing in British Columbia.

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

All right, that's all I had. Best of luck, guys. Thanks.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Thanks.

**Operator**

Thank you. Your next question is a follow-up from Mark Wilde at BMO Capital Markets. Go ahead, please.

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

Yes. I wondered, Don, if you and the crew could just give us a little more colour on what you're seeing in China right now in terms of both demand and how you think the inventory situation is?

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Yes, for sure, we'll give you two views, one on lumber, one on pulp. Kevin, why don't you start with lumber, and then Brian, you give a pulp update there.

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

For sure. Our shipments into China are down a little bit here, but largely reflecting lower—low grades— or lower volumes of low grade that we're making, so we do expect that trend's going to continue. The offset to that will be just more focus on some of the higher valued products into China, and in fact, even expanding into Southeast Asia. For sure, some softness in the market there, but it's a reallocation and a focus of where we're channelling our energies on the market development, the higher value of products there.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Brian, what about pulp?

**Brian Yuen** —Vice President, Wholesale & Marketing, Canfor Corporation

Sure, good morning, Mark. On the pulp side, for sure, we're in the seasonally slow period in China. But on the positive side, the curtailments announced over the summer period by Ilim and ourselves have definitely helped stabilize the market, and in fact, we've seen a modest uptick in softwood pricing in China this month.

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

That's good news. Is it possible to get some sense, Alan, of how we might see your realizations move between the second quarter and third quarter? I think you've mentioned that a lot of the declines will show up in the third quarter just because of timing on shipments?

**Alan Nicholl** – Chief Financial Officer & Executive Vice President, Finance, Canfor Corporation and Canfor Pulp Products, Inc.

Yes, it's a fair question, Mark. I'm not sure I'm going to be able to help you a whole lot on the call but appreciate where you're coming from. I think, typically, there's a little bit of a lag here, as you appreciate, between taking orders and when we actually ship the product. If you factor in what happened in May and June and certainly take a percentage of that and roll that in for a good part of Q3, you're probably not going to be too far away—too far off as a starting point.

But it is not easy to financially model. You've got weak order filing there, you've got spot prices moving around in contrast to a more stable contract business as well. That would be the only guidance I could give you, Mark, just to maybe start you off there.

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

Yes. The final one I've got is, the Lumber market seems particularly weak right now. I'm just curious that Random Lengths' price on the SPF 2x4s was down at \$322 last night. A, can you generate cash at those kind of levels in B.C. right now, and B, I just wondered if you have any thoughts on what was going on in the repair and remodel market, because I've heard some commentary over the last couple months about big box retailers really trying to pull back on their inventories in the U.S. The

Harvard Center for Housing Studies recently pulled down their both historical numbers on repair and remodelling spend, and also put out a pretty cautious outlook if we look forward a year.

Wondered if I could get your perspective on the market from both of those angles?

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Why don't you start with the market first, Kevin, and given you've obviously done a lot of work around that.

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

Yes. Mark, based on what we're seeing in the market there on the R&R side, we've actually had some pretty good growth year-over-year. Actually, it started in Q4 of 2018, and we've seen that trend continue all the way through the current state. In fact, we see that trend continue for the balance and the year-end into next year. It's the one segment that we've actually seen some pretty good growth from a volume unit point of view.

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

Okay.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Mark, maybe just one other—in addition to that; that's exactly right, Kevin, but I mean, as we've heard similar comments that you just raised there. But at the end of the day, the one thing about the

retail business that we've been dealing with for a long time is through the VMIs, and it's a really good indicator of true demand. There's no speculation, they're absolute takeaways. Like Kevin mentioned, in all of the distribution areas, pretty much where we have product, we've seen those kind of increases overall. For us, we're definitely not seeing what some of these external consultants or whatever they're called have been talking about, overall—which is actually encouraging, and it's quite significant growth, actually, that we've seen, as Kevin mentioned.

Stephen, in terms of the cash costs and so forth?

**Stephen Mackie** — Senior Vice President, Canadian Operations, Canfor Corporation

Yes, and Mark, I guess maybe the way I would—the only guidance I can give you there is that I think it's well-reported that the current market levels are unsustainable from a B.C. perspective, given our fibre cost and operating cost numbers in the low 300s on a 2x4 2 and better basis are well below cash breakeven for the B.C. sector as a generalization. That's unsustainable, and I think you're seeing the impacts of that with all the past-year reductions you've seen across the industry.

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

Okay, that's really helpful, guys. Thanks very much.

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

Okay, thanks, Mark. Take care.

**Operator**

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

**Donald Kayne** — Chief Executive Officer, Canfor Corporation and Canfor Pulp

All right, thank you very much, Operator. Thanks for everybody that joined the call and look forward to talking to you at the end of Q3.

**Operator**

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