

# COMPANY UPDATE

SEPTEMBER 2018

# FORWARD-LOOKING INFORMATION

This presentation contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, annualized, projection, target, outlook, opportunity, risk or strategy. Readers are cautioned that actual results may vary from the forward-looking information in this presentation, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this presentation, are described in Interfor's annual Management's Discussion & Analysis under the heading "Risks and Uncertainties", which is available on [www.interfor.com](http://www.interfor.com) and under Interfor's profile on [www.sedar.com](http://www.sedar.com). Material factors and assumptions used to develop the forward-looking information in this presentation, include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; and cyber-security measures. Unless otherwise indicated, the forward-looking information in this presentation is based on the Company's expectations at the date of this presentation. Interfor undertakes no obligation to update such forward-looking information, except as required by law.

# SUMMARY

## RECORD Q2-2018 FINANCIAL RESULTS:

- Production of 688 MMbf
- EBITDA of \$124 MM (\$355 MM LTM)
- Strong free cash flow
- Leverage reduced to 3% ND/IC

## MULTI-YEAR STRATEGIC CAPITAL PLAN UNDERWAY:

- **Discretionary internal projects:**

**PHASE I:** Two US South projects totaling US\$65 MM

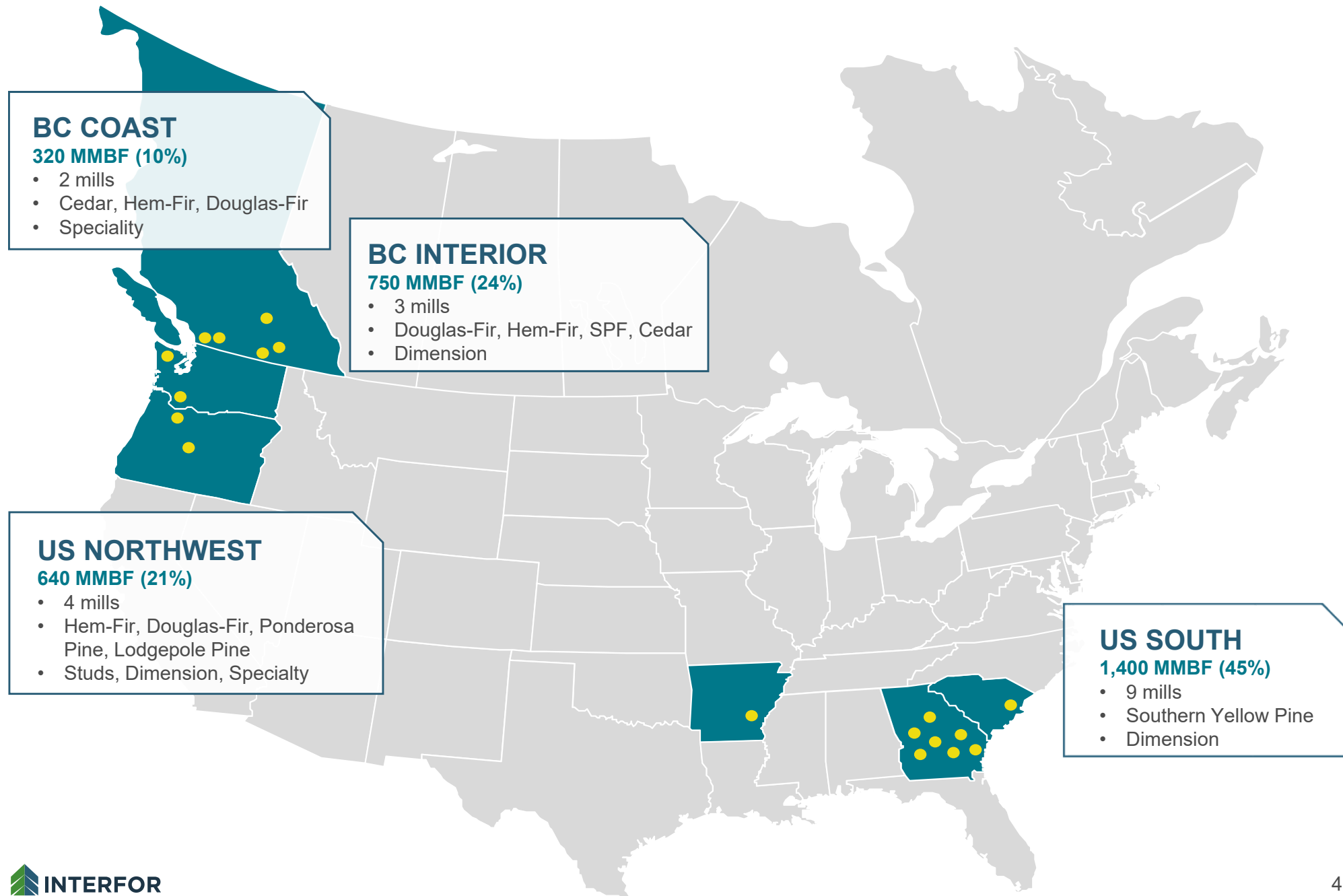
- Increase production by 150 MMbf/year
- Reduce conversion costs and increase grade outturns/product mix and lumber recovery
- Completion in Q1-2019

**PHASE II:** Three US South projects totaling US\$240 MM

- Increase production by 275 MMbf/year
- Reduce conversion costs and increase grade outturns/product mix and lumber recovery
- Completion between 2019-2021

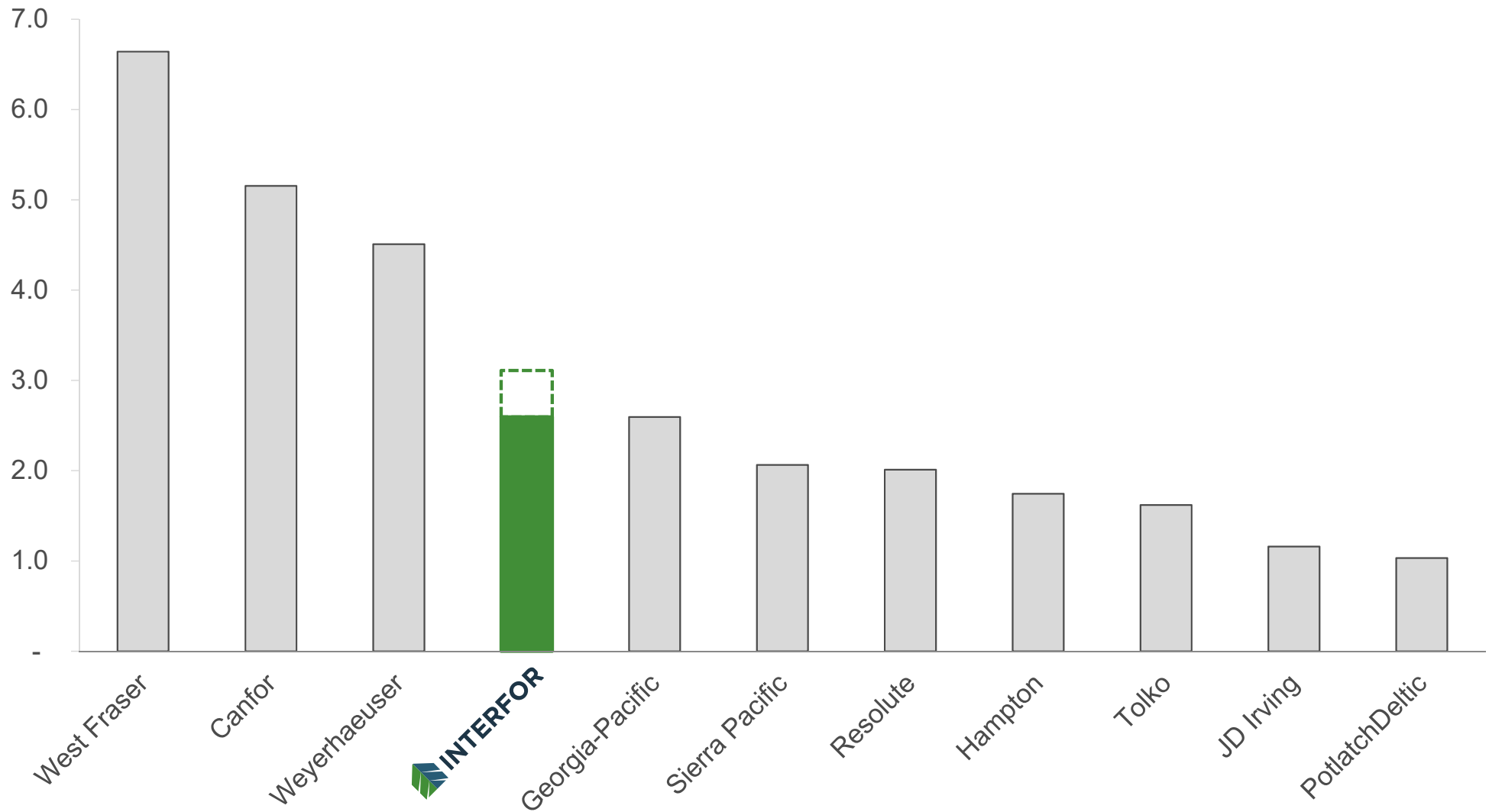
- **External opportunities under consideration**

# INTERFOR'S FOUR REGIONS



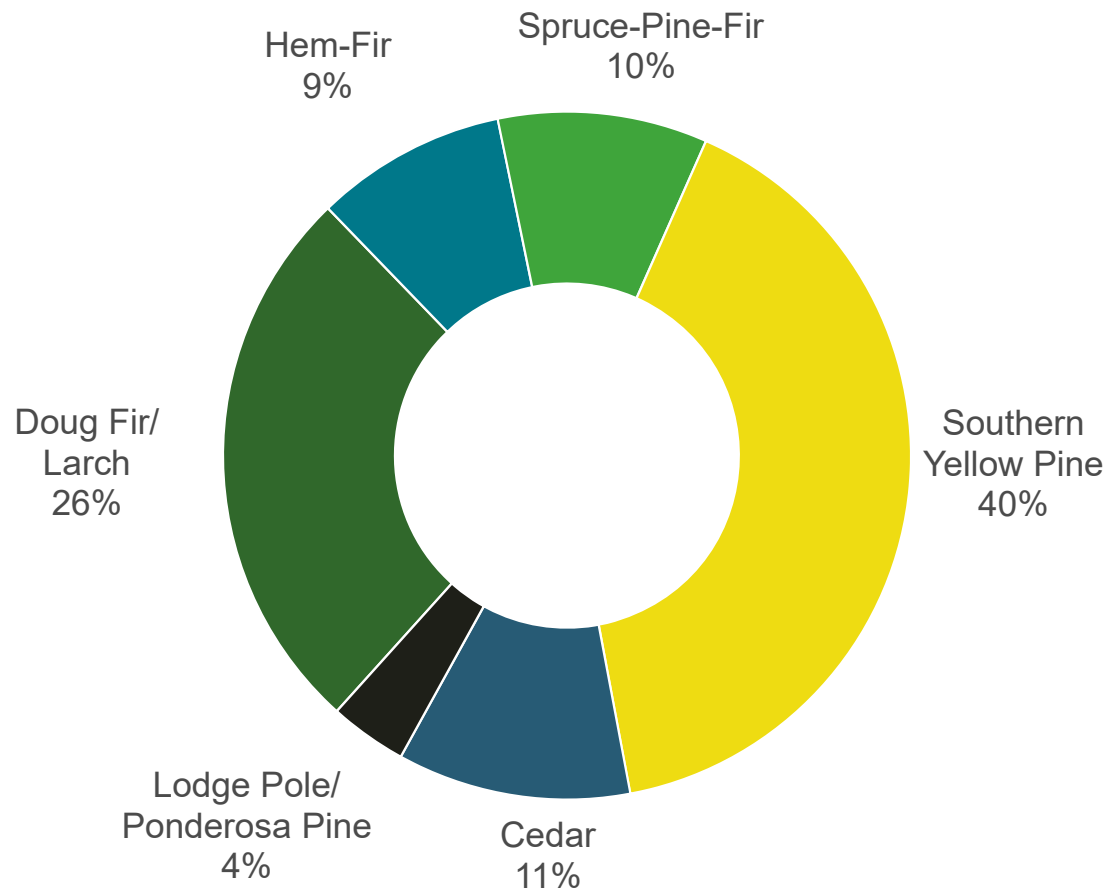
# 4<sup>TH</sup> LARGEST LUMBER PRODUCER

NORTH AMERICAN LUMBER PRODUCTION BY COMPANY - 2017

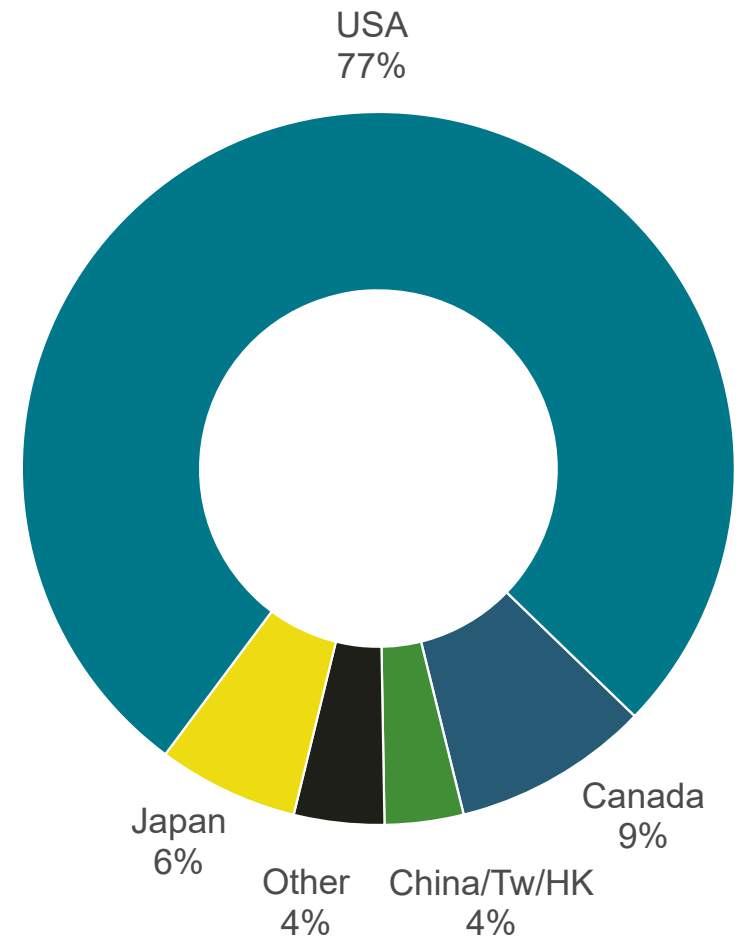


# INTERFOR'S PRODUCTS & MARKETS

## LUMBER SALES BY SPECIES (1)



## LUMBER SALES BY MARKET (1)







# LUMBER MARKETS

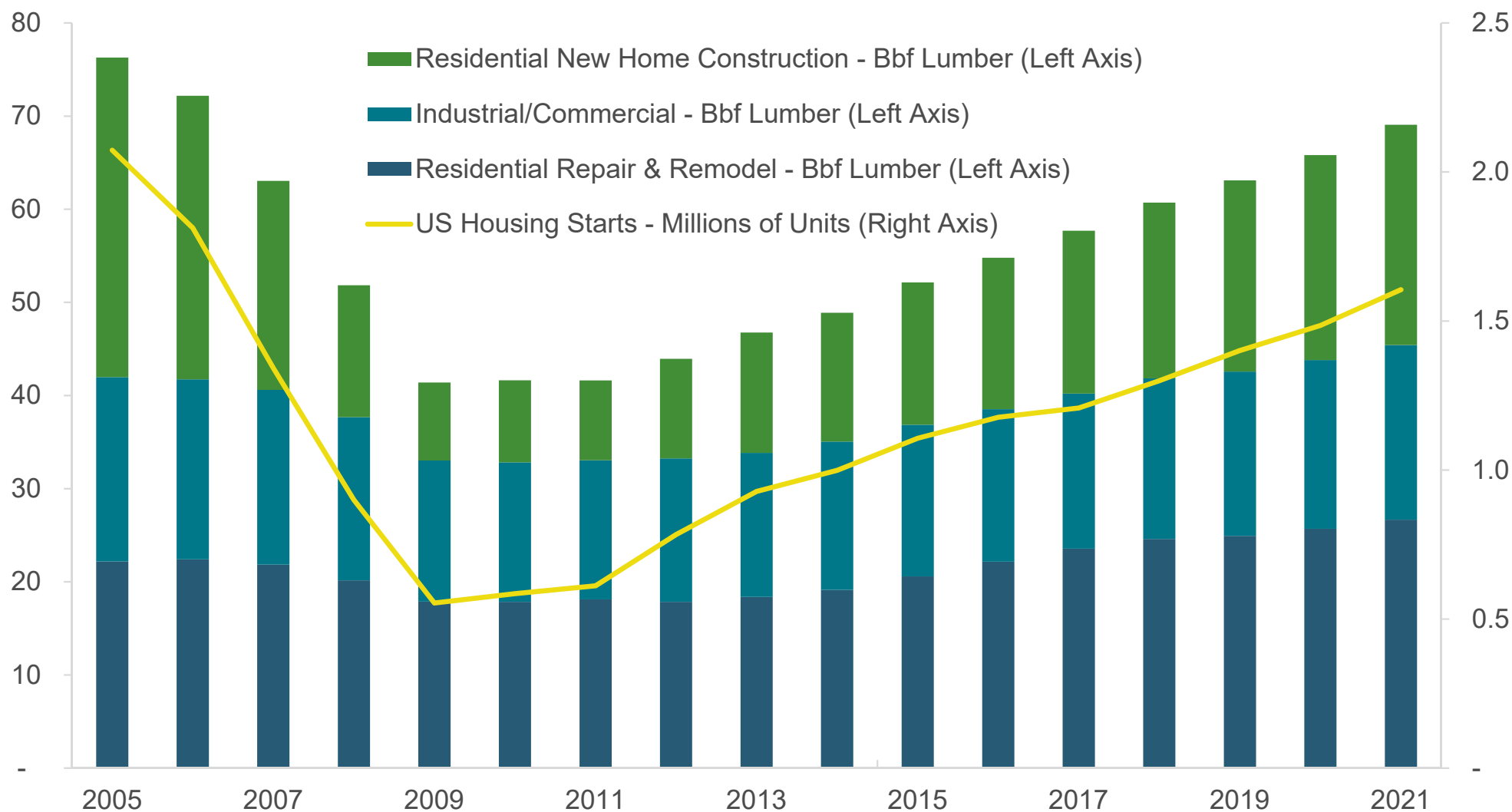
# KEY MARKET DRIVERS

	2017	2018E	2019E	2020E	2021E
US Housing Starts - Total (mm)	1.21	1.30	1.40	1.49	1.61
<i>Change</i>	+3%	+8%	+8%	+6%	+8%
US Housing Starts - Single Family (mm)	0.85	0.92	1.02	1.09	1.17
<i>Change</i>	+9%	+8%	+11%	+7%	+7%
North American Lumber Consumption (Bft)	57.7	60.7	63.1	65.8	69.1
<i>Change</i>	+5%	+5%	+4%	+4%	+5%
North American Offshore Exports (Bft)	6.3	6.0	5.9	5.5	5.1
<i>Change</i>	-1%	-5%	-0%	-7%	-7%
North American Offshore Imports (Bft)	1.4	1.6	1.7	1.9	2.3
<i>Change</i>	+49%	+11%	+8%	+15%	+20%



# NORTH AMERICAN LUMBER DEMAND

## NORTH AMERICAN SOFTWOOD LUMBER DEMAND BY END-USE (BBF) & TOTAL US HOUSING STARTS (MILLIONS)



# NORTH AMERICAN LUMBER SUPPLY

## NORTH AMERICAN LUMBER DEMAND & SUPPLY CHANGES: 2017 – 2021

### BBF LUMBER

North American Domestic Demand:

+ 11.4

- Continued growth in all end-use markets (R&R, industrial and new home construction)

Plus: Decline in BC Production:

+ 1.0

- Reductions in fibre supply

Less: Potential Offshore Imports:

- 1.0

- Dependent on market pricing

### SUPPLY SHORTFALL:

+ 11.4

Less: Announced Capacity Additions:

- 4.1

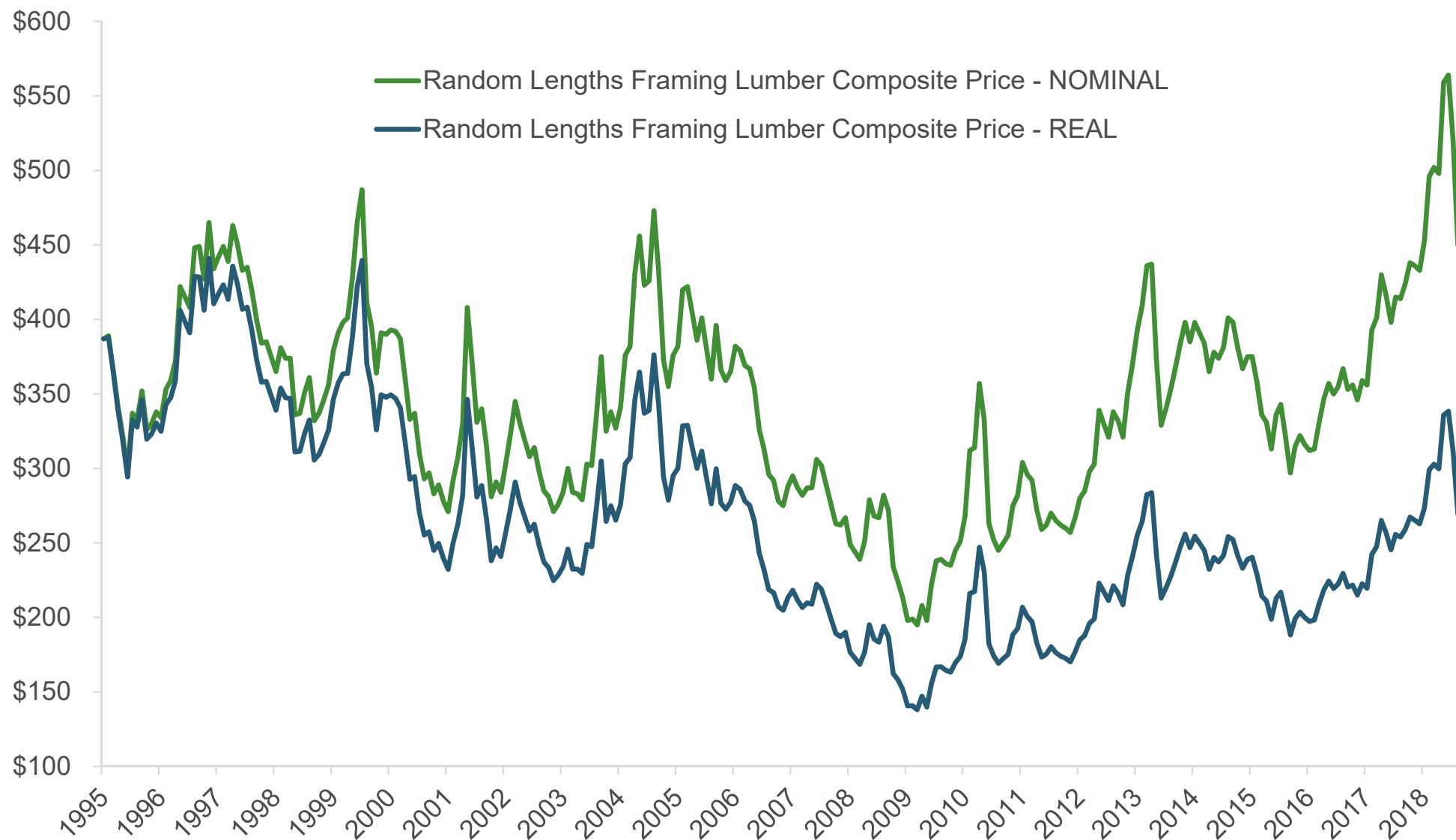
- Major debottlenecking, brownfields and greenfields

### REMAINING SUPPLY SHORTFALL:

+ 7.3

# NORTH AMERICAN LUMBER PRICES

## NORTH AMERICAN BENCHMARK LUMBER PRICES (US\$/MBF) NOMINAL & REAL



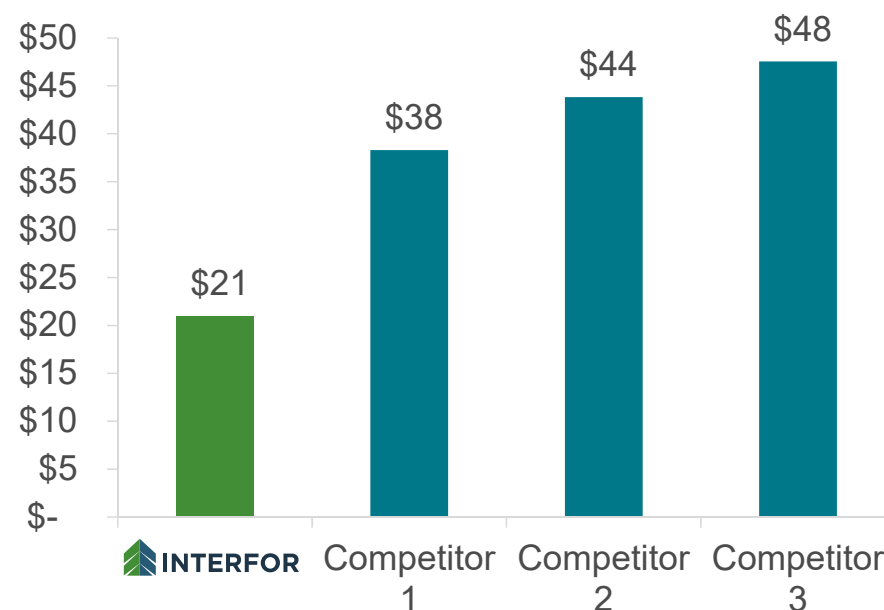
# SOFTWOOD LUMBER DISPUTE

- Interfor's Canadian operations' shipments to the U.S. represented 15% of company-wide lumber shipments in YTD Q2-2018.
- 68% of Interfor's YTD Q2-2018 lumber production was US-based.
- Significant differences in accounting treatment for duties between publicly traded companies; limits reported EBITDA comparability.

## U.S. COUNTERVAILING (CV) & ANTI-DUMPING (AD) DUTIES <sup>(1)</sup>

<u>COMPANY</u>	<u>CV</u>	<u>AD</u>	<u>TOTAL</u>
West Fraser	17.99%	5.57%	<b>23.56%</b>
Canfor	13.24%	7.28%	<b>20.52%</b>
Tolko	14.85%	7.22%	<b>22.07%</b>
Resolute	14.70%	3.20%	<b>17.90%</b>
JD Irving	3.34%	6.04%	<b>9.38%</b>
All Others (Includes Interfor)	14.19%	6.04%	<b>20.23%</b>

## YTD Q2-2018 DUTIES PAID PER SHIPMENT (C\$/MBF) <sup>(2)</sup>



(1) Reflects final duty rates announced by the US Department of Commerce on December 28, 2017.

(2) Reflects total cash deposits PAID per shipment. Competitors include publicly traded western Canadian lumber companies.





# OPERATIONS OVERVIEW

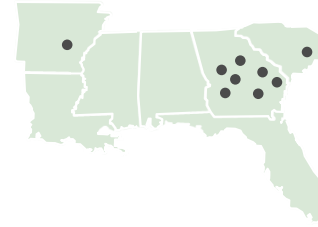
# BUSINESS COMPARISONS

## BC INTERIOR DIMENSION MILLS



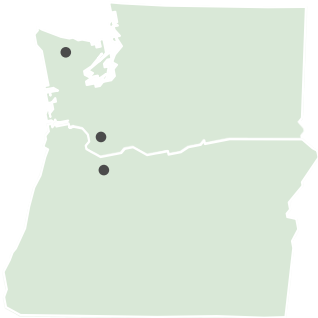
- 3 dimension mills in BC southern interior
- Modern/low cost operations
- Good fiber supply/limited exposure to pine beetle

## US SOUTH DIMENSION MILLS



- 9 dimension mills in Georgia, South Carolina and Arkansas
- Low cost wood baskets
- Strong geographic fit/significant operational upside

## US NORTHWEST STUD MILLS



- 3 stud mills in Washington State and Oregon
- Efficient/modern operations

## BC/NORTHWEST SPECIALTY MILLS



- 3 specialty mills in BC Coast and Oregon
- High value products
- Cedar, Japanese squares and pine boards

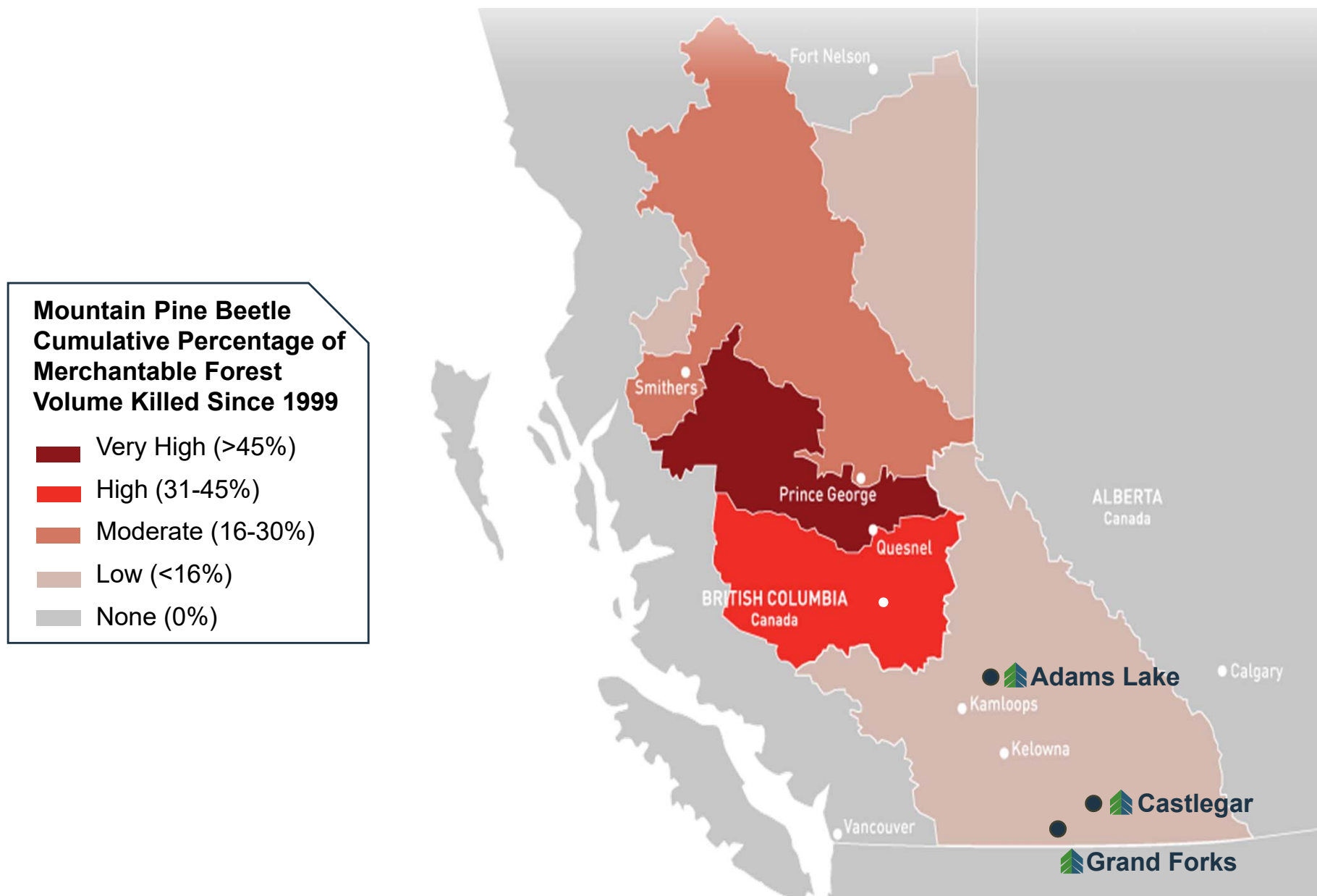




# BC INTERIOR DIMENSION MILLS

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# BC INTERIOR: OVERVIEW





# BC INTERIOR: CASE STUDY

**ADAMS LAKE**  
**2008-09**



**GRAND FORKS**  
**2012**



**CASTLEGAR**  
**2015**



3 mills in good fibre baskets

Significantly repositioned the assets

**STRONG CASH FLOW AND RETURN ON INVESTMENT**

**TOP DECILE/QUARTILE EBITDA MARGINS FOR THE BC INTERIOR**

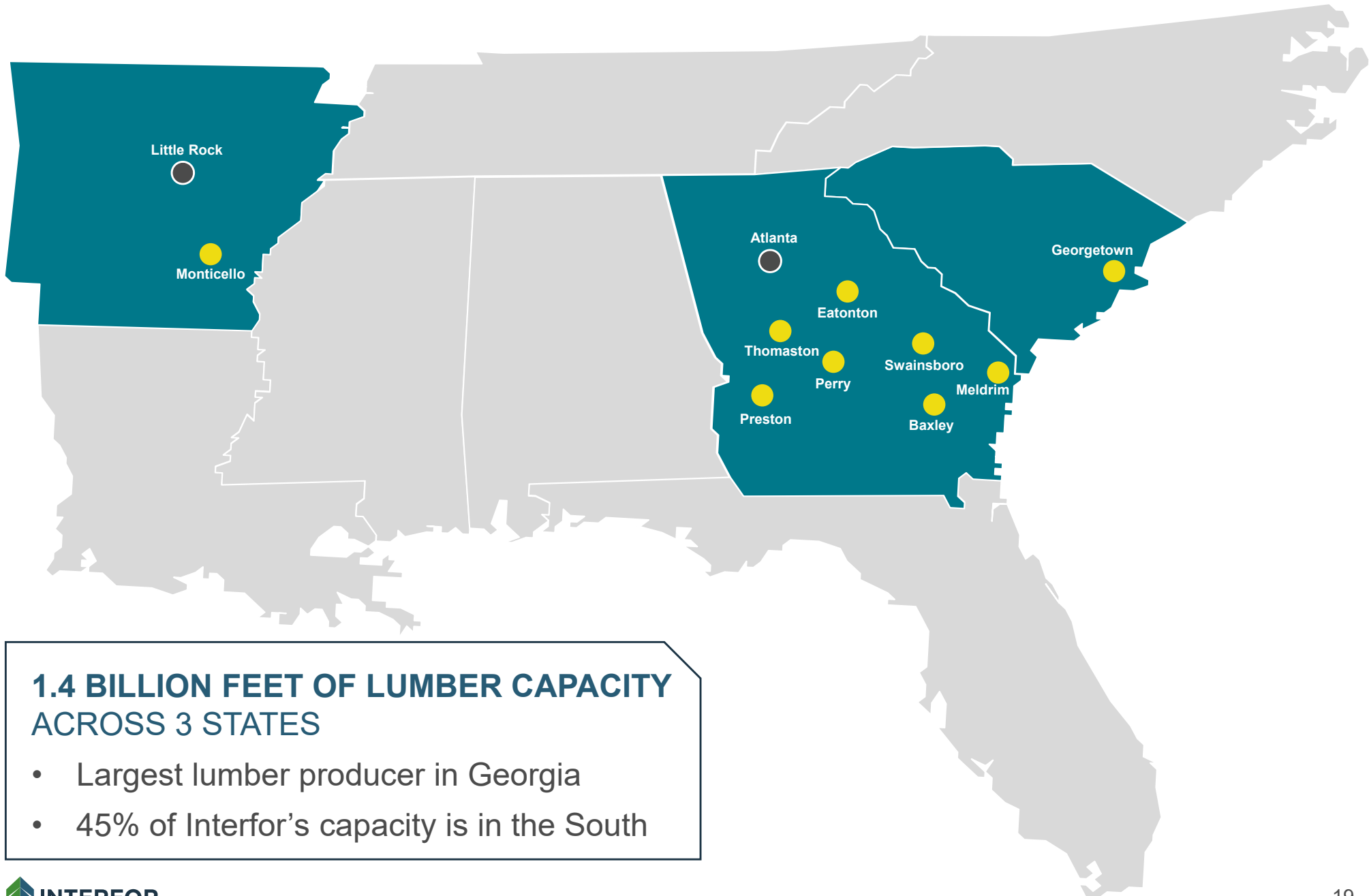




# US SOUTH DIMENSION MILLS

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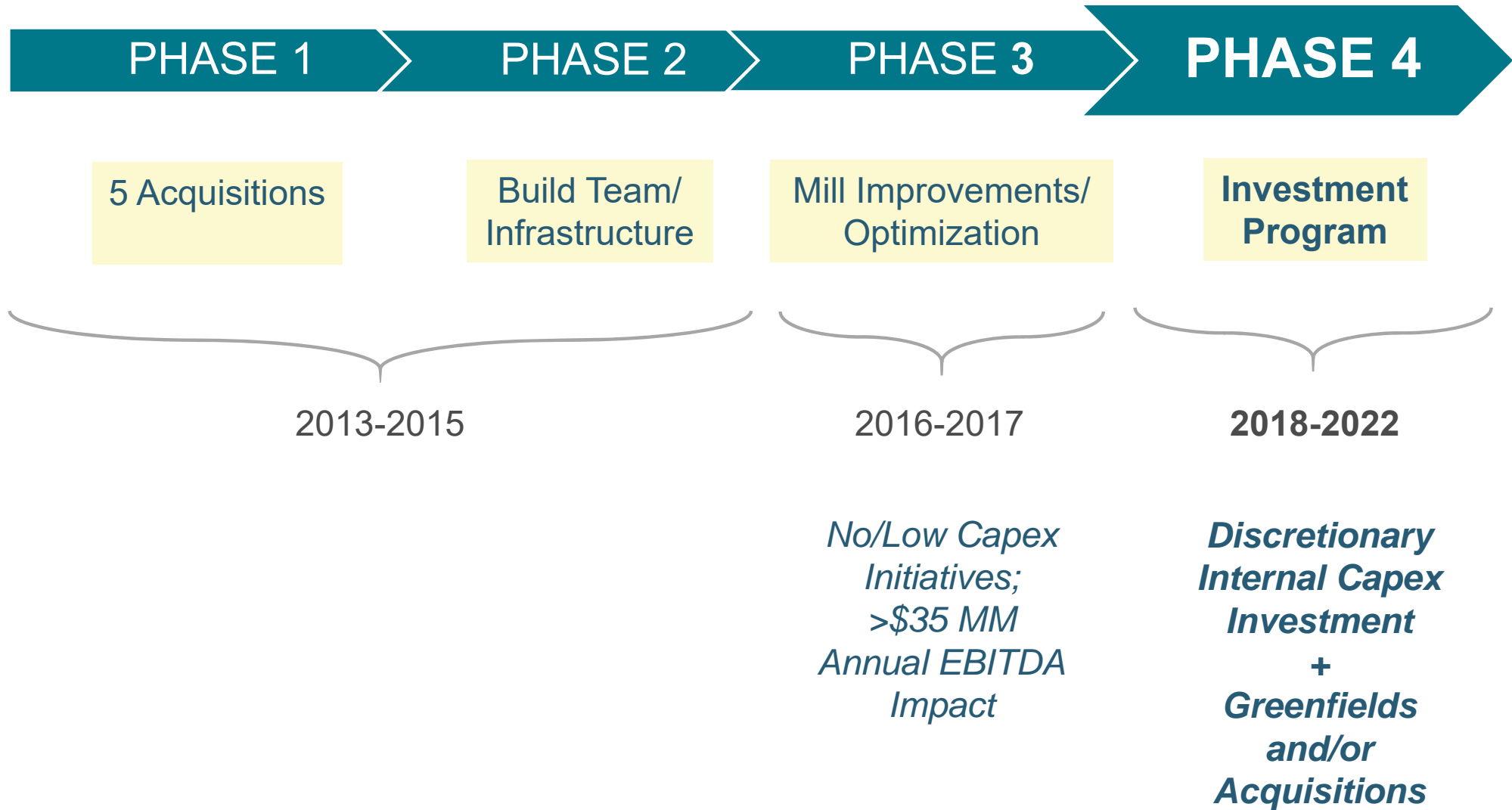
# US SOUTH: OVERVIEW



## 1.4 BILLION FEET OF LUMBER CAPACITY ACROSS 3 STATES

- Largest lumber producer in Georgia
- 45% of Interfor's capacity is in the South

# US SOUTH: MULTIPLE PHASES





# US SOUTH: INVESTMENT PROGRAM

- **MULTI-YEAR DISCRETIONARY CAPEX INVESTMENT PROGRAM:**

- Mill rebuilds, machine center upgrades, debottlenecking and optimization projects for existing assets

**PHASE I:** Two projects totaling US\$65 MM (Meldrim, GA and Monticello, AR); completion in Q1-2019

**PHASE II:** Three projects totaling US\$240 MM (Thomaston, GA; Eatonton, GA and Georgetown, SC); completion between 2019 and 2021

- **ADDITIONAL INVESTMENT OPPORTUNITIES IN GREENFIELDS AND/OR ACQUISITIONS**





A photograph of a dense forest with many tall, thin trees. Sunlight filters through the canopy, creating dappled light on the ground. The trees are mostly bare, suggesting a late autumn or winter setting. The sky is visible through the branches at the top.

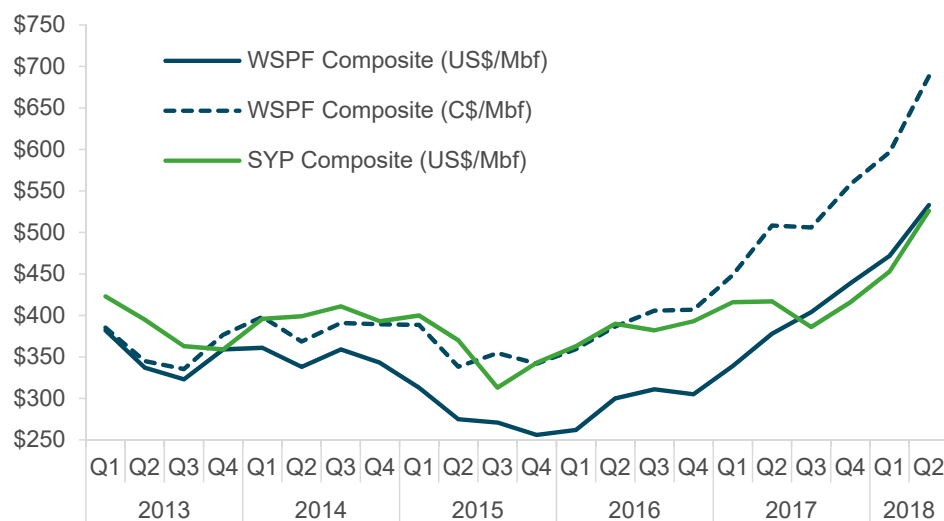
# FINANCIAL REVIEW

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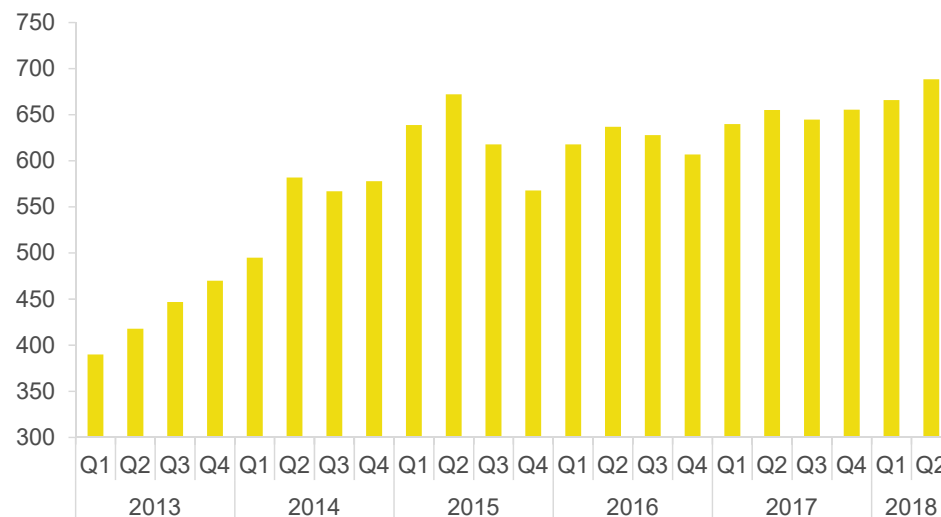


# HISTORICAL RESULTS SNAPSHOT

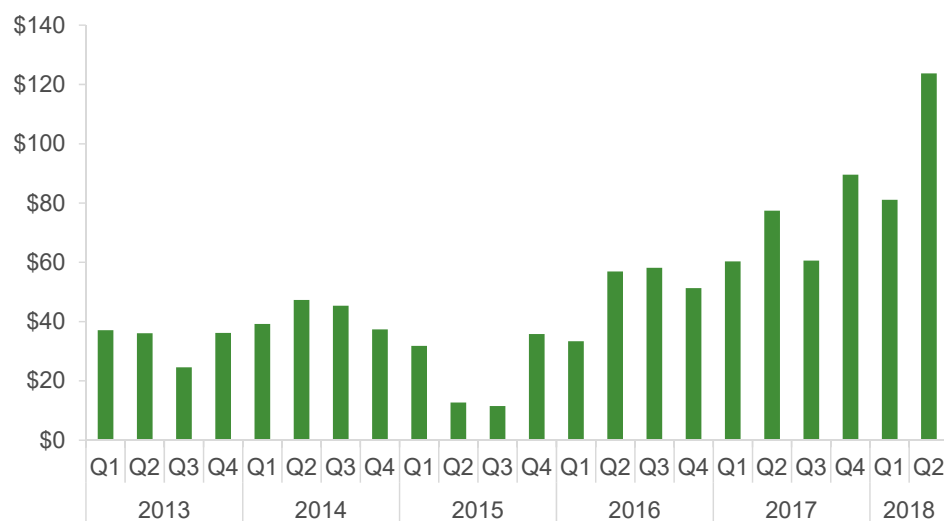
## BENCHMARK LUMBER PRICES (\$/MBF)



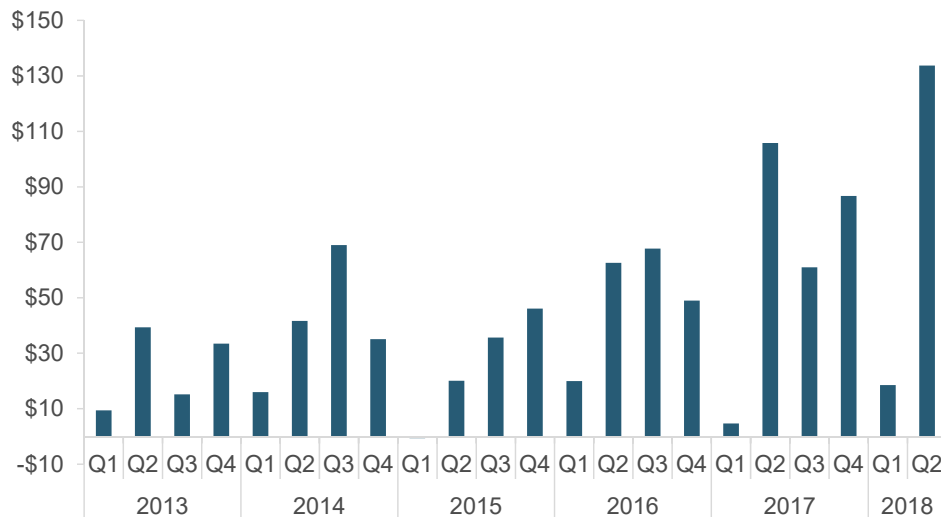
## PRODUCTION VOLUMES (MMBF)



## ADJUSTED EBITDA (C\$MM)

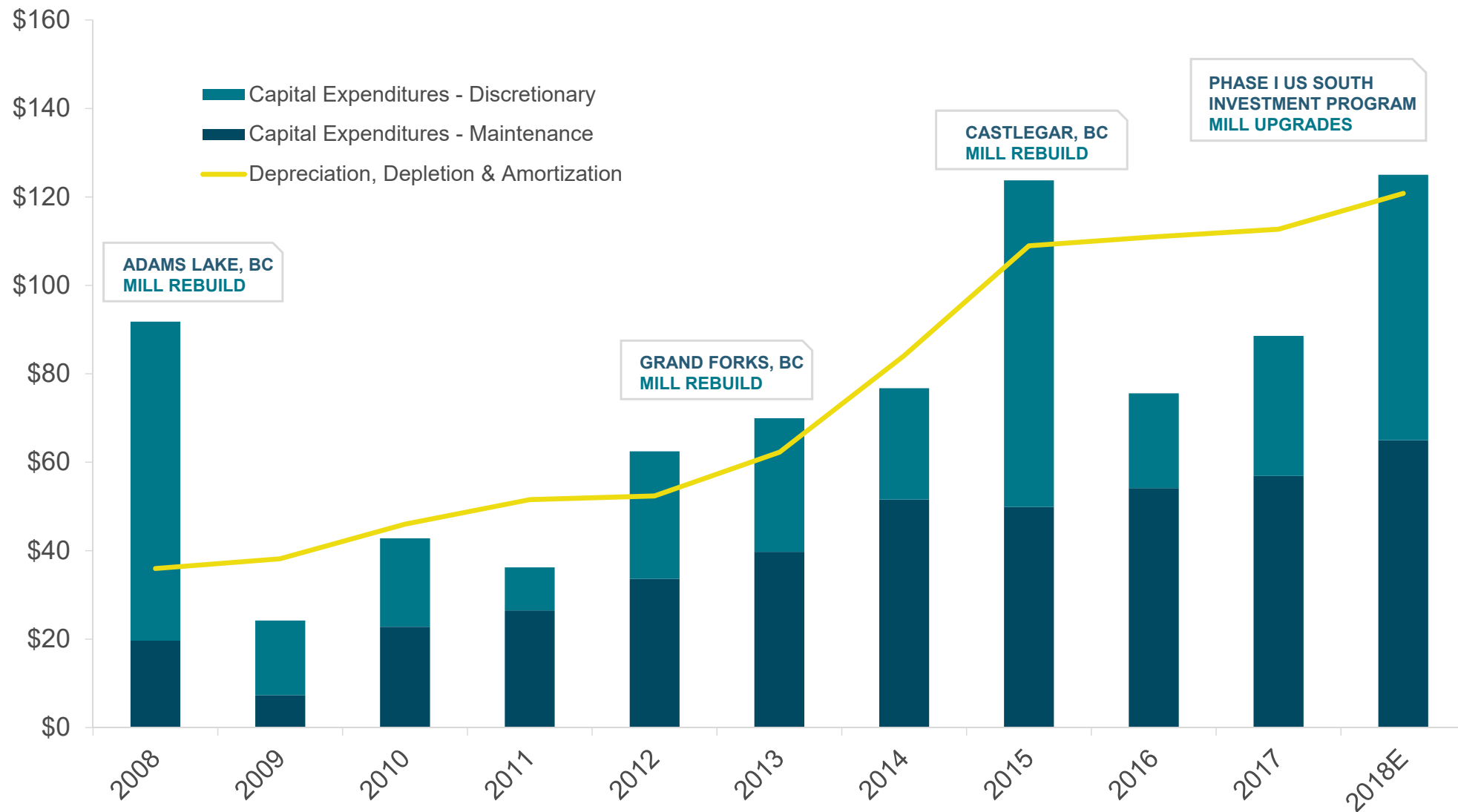


## CASH FROM OPERATIONS (C\$MM)



# CAPITAL SPENDING PROFILE

## ANNUAL CAPITAL EXPENDITURES (C\$MM)





# FREE CASH FLOW CONSIDERATIONS

C\$MM

Adjusted EBITDA:  
(LTM Through Q2-2018)

\$355

- Expected growth from strategic capex
- Full expensing of CV/AD duties

Less:

Cash Interest Expense, net:

\$(8)

- Average debt interest rate ~ 4.5%
- Significant cash on hand ~ 2.0%

Maintenance Capex:

\$(60-70)

- Maintenance includes logging roads

Cash Taxes:

\$(5)

- Tax loss carry-forwards; C\$24MM in Canada and US\$50MM in the US

Other:

TBD

- No significant employee future benefit obligations; Incentive payouts dependent on stock price

**FREE CASH FLOW:**

**\$277**

**FREE CASH FLOW PER SHARE:**

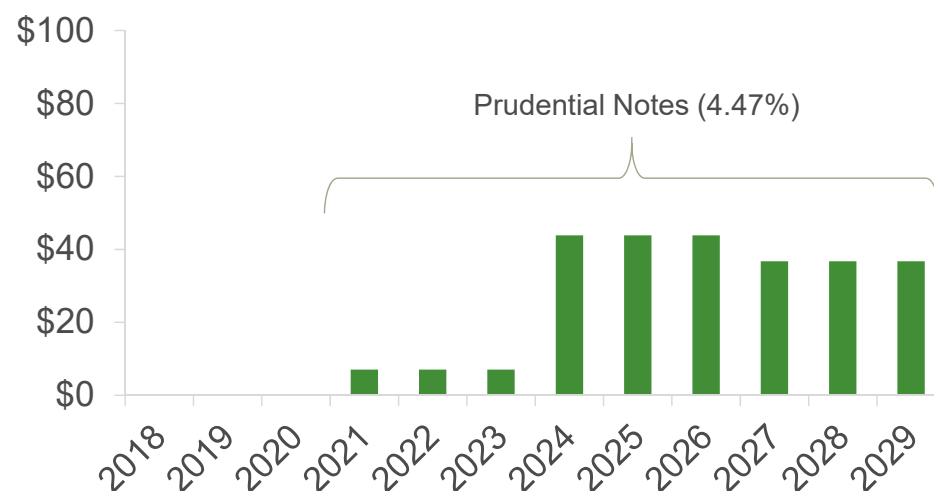
**\$3.96**

# CAPITAL STRUCTURE

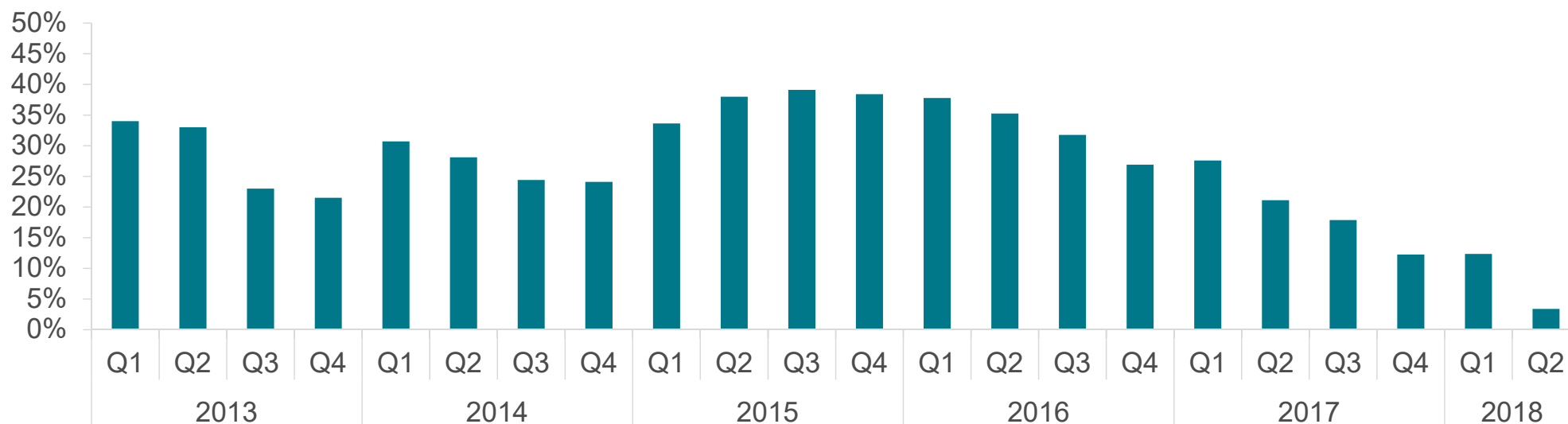
## CAPITAL STRUCTURE AS OF JUNE 30'18

Cash (\$MM)	\$(229)
Debt (\$MM)	\$263
Net Debt (\$MM)	\$34
Book Equity (\$MM)	\$977
Invested Capital (\$MM)	\$1,011
<b>NET DEBT/INVESTED CAPITAL (\$MM)</b>	<b>3%</b>
Net Debt/LTM EBITDA	0.1x
EBITDA/Interest Expense (LTM)	31.7x

## DEBT MATURITY SCHEDULE PROFORMA AS OF JUNE 30'18 (C\$MM) <sup>(1)</sup>



## NET DEBT/INVESTED CAPITAL



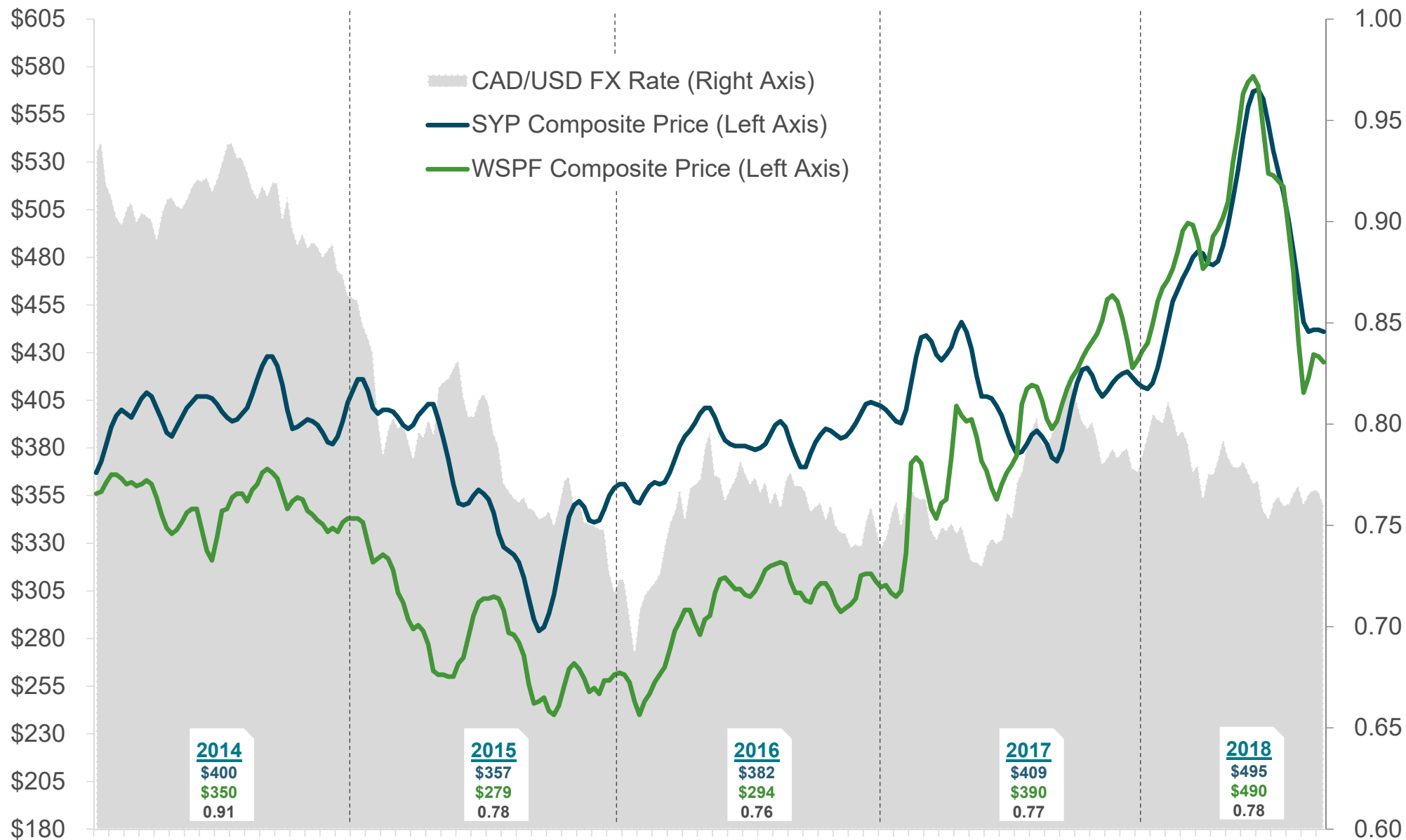


# SUPPLEMENTARY INFORMATION

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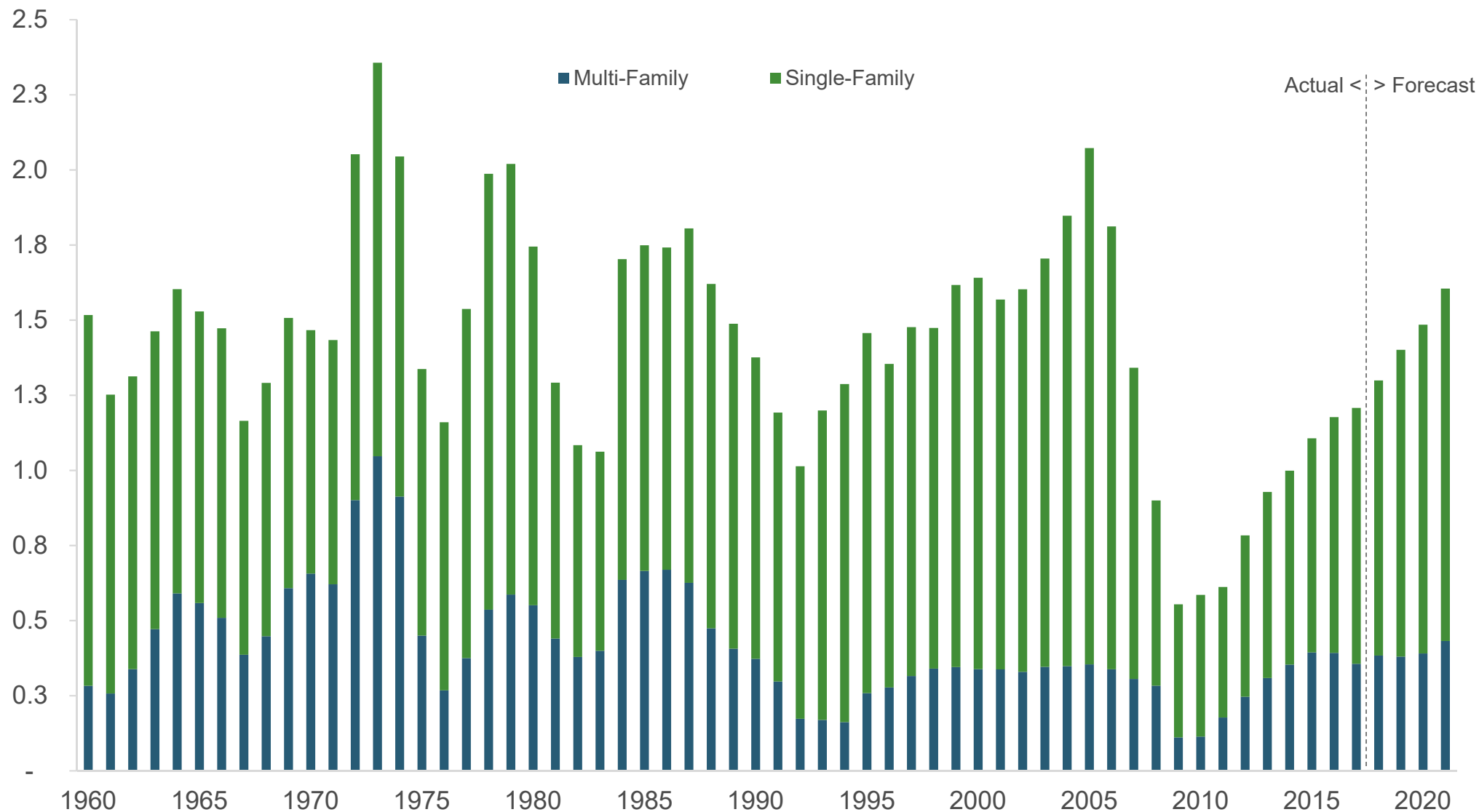
# LUMBER PRICES & FX TRENDS

BENCHMARK LUMBER PRICES (US\$/MBF) & USD/CAD FX RATES (C\$/US\$)



# US HOUSING STARTS IN CONTEXT

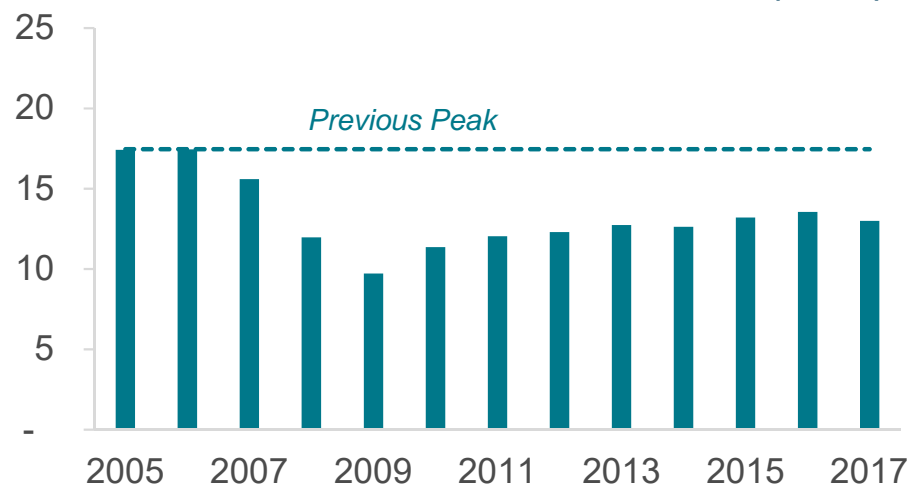
ACTUAL & FORECAST US HOUSING STARTS (MILLIONS OF UNITS)



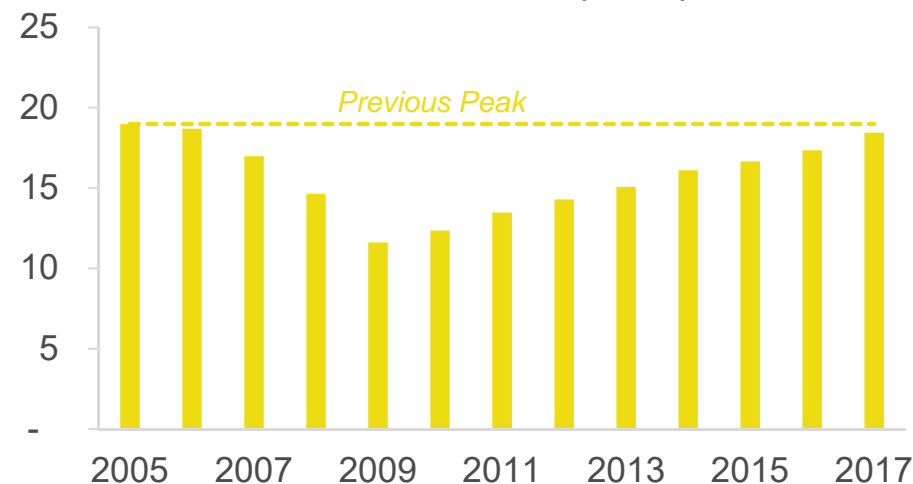


# NORTH AMERICAN PRODUCTION

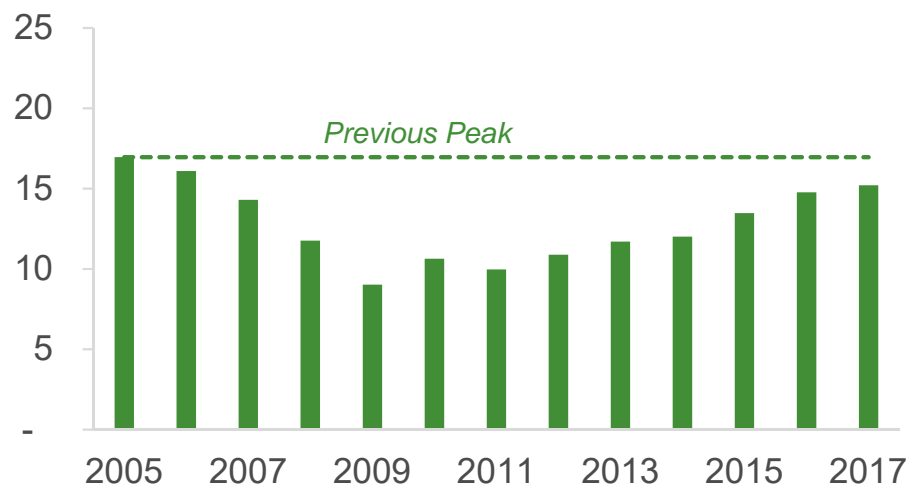
**CANADA – BRITISH COLUMBIA (BBF)**



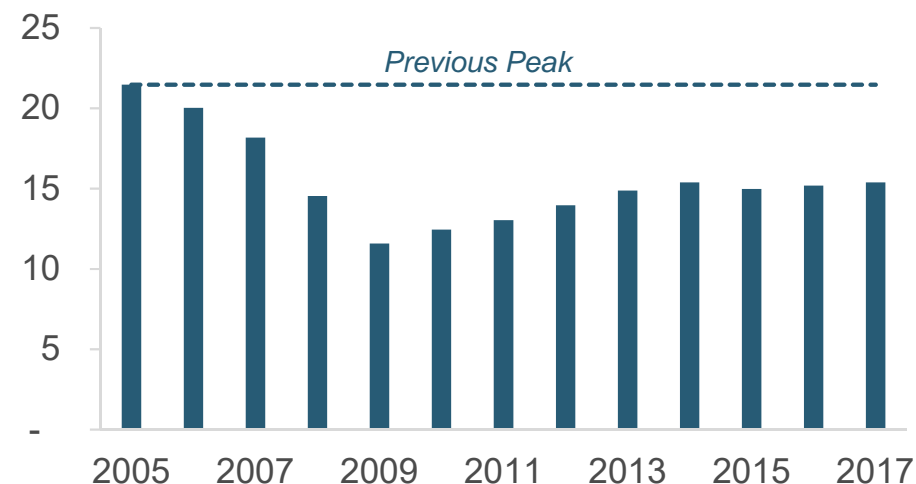
**USA – SOUTH (BBF)**



**CANADA – ALL OTHER REGIONS (BBF)**

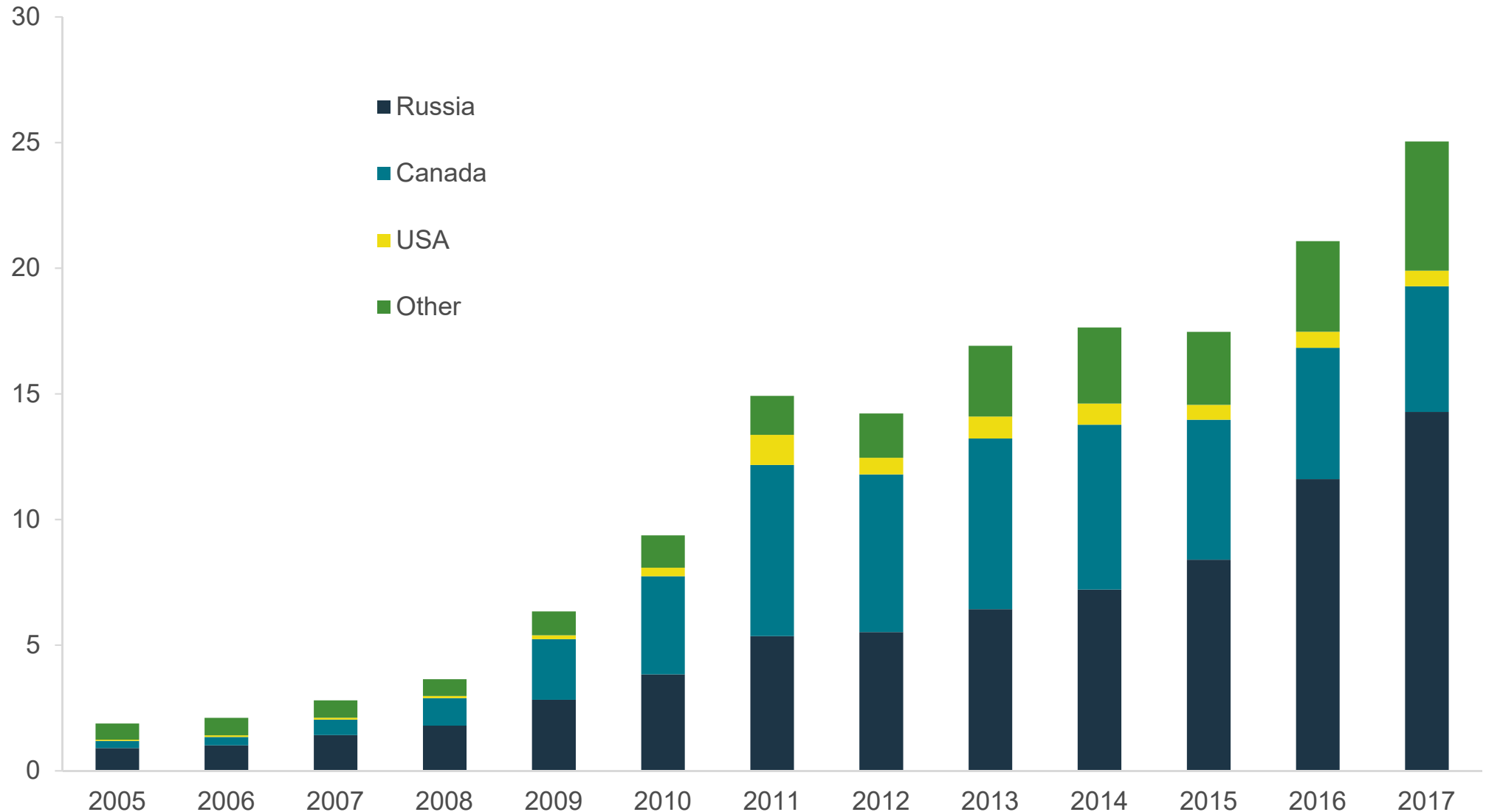


**USA – ALL OTHER REGIONS (BBF)**



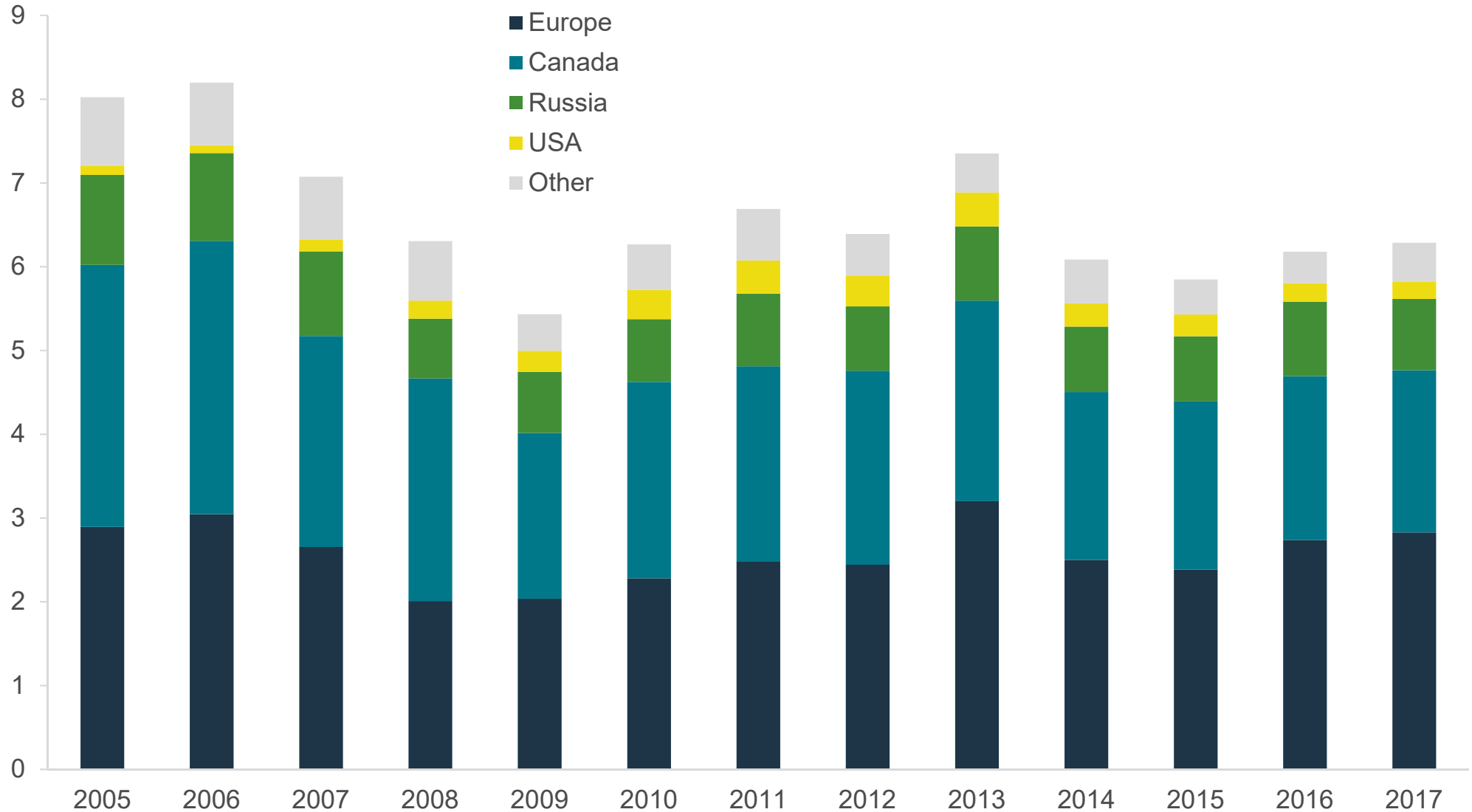
# CHINA LUMBER DEMAND

CHINESE SOFTWOOD LUMBER IMPORTS BY COUNTRY (MILLIONS M3)



# JAPAN LUMBER DEMAND

JAPANESE SOFTWOOD LUMBER IMPORTS BY COUNTRY (MILLIONS M3)



# ANALYST COVERAGE

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