



ACADIANTIMBER



# Acadian Timber Corp. Annual General Meeting Transcript

**Date:** Wednesday, June 26, 2013

**Time:** 10:00 AM ET

**Speakers:** **Sam Pollock**  
Chairman of the Board

**Reid Carter**  
President and Chief Executive Officer

**SAM POLLOCK:**

Good morning, everyone. It's my pleasure to welcome everyone here today. It is now 10:00 a.m. and time to start the Annual Meeting of Acadian Timber Corp. My name is Sam Pollock and, as Chairman of the Company, I will chair this meeting. With me at the head table is Reid Carter, President and Chief Executive Officer and also a Director.

I now call the meeting to order and ask Leigh Tang, Corporate Secretary of the Company, to act as Secretary of the meeting. I would also ask Canadian Stock Transfer Company, Inc., by its representative, Christopher de Lima, to act as scrutineer.

Before we turn to the business before us, I'd like to deal with a few procedural matters. For the purposes of running the meeting efficiently, arrangements have been made to have certain shareholders move and second the resolutions coming before the meeting. A presentation will be made following the formal business portion of the meeting, after which management will be prepared to discuss any questions you may have.

The Notice calling the Meeting and the Management Information Circular were sent to shareholders. I've asked Leigh Tang to file Proof of Service of the Notice of the Meeting with the records of the meeting and she has done so.

The minutes of last year's Annual Meeting, held on May 2<sup>nd</sup>, 2012, are available should any shareholder wish to review them.

Based on the scrutineer's preliminary report on attendance, the Secretary has confirmed that there is a quorum present. I, therefore, declare the meeting properly constituted for the transaction of business for which it has been called.

I will now table the Corporation's 2012 Annual Report to Shareholders, which includes the 2012 financial statements, together with the Auditor's Report. Copies of our Annual Report were mailed to registered shareholders and are also available here today outside.

We will now proceed with the election of five Directors, each of whom is to be elected at this meeting to hold office until the next Annual Meeting. Particulars of the five nominees are set out in the Information Proxy Circular which accompanied the Notice of Meeting sent to shareholders. I will now call for nominations for the election of five Directors of the Corporation.

**KATHERINE VYSE:**

Mr. Chairman, my name is Katherine Vyse, and I nominate the following persons: Messrs. Bud Bird, Reid Carter, David Mann, Sam Pollock and Saul Shulman, and move that they be elected Directors of the Corporation to hold office until the next Annual Meeting.

**SAM POLLOCK:**

Thank you, Katherine. Are there any further nominations? Thank you, ladies and gentlemen. As there are no further nominations, I declare the nominations closed.

As there are five persons nominated for the same number of positions, I now declare that those nominated have been duly elected Directors of the Corporation by acclamation.

I would now like to introduce you to the other Directors who, in addition to Reid and myself, are with us today and ask them to stand as their names are called. David Mann and Saul Shulman. Our other Director, Bud Bird, would like to have been here today but, unfortunately, due to personal reasons, wasn't able to join us.

We also have a few members of management in the audience: Brian Banfill, our Chief Financial Officer; Marcia McKeague, Vice President of Maine Operations; Luc Ouellet, Vice President, New Brunswick Operations; and Erika Reilly, who is one of our Senior Vice Presidents.

The last item of business is the appointment of auditors. As stated in the Notice of Meeting, it is the intention of the persons named in the form of proxy to vote in favour of a resolution appointing Ernst & Young LLP as auditors of the Corporation, to hold office until the next Annual Meeting and authorizing the Board to fix their remuneration, subject to contrary instructions given in the form of proxy.

Will someone please move a resolution for the appointment of auditors?

**DAVID MANN:**

Mr. Chairman, my name is David Mann and I am the Chair of the Corporation's Audit Committee. I move that Ernst & Young LLP be appointed auditors of the Corporation until the next Annual Meeting and that the Directors be authorized to fix their remuneration.

**SAM POLLOCK:**

Thank you, David. May I have a seconder?

**ANGELA MARIER:**

Mr. Chairman, my name is Angela Marier and I second the motion.

**SAM POLLOCK:**

Thanks, Angie.

Adoption of this motion requires the favourable vote of a majority of the votes cast at the meeting by shareholders. Management has received proxies representing approximately 70% of the Corporation's units. These proxies direct management to vote over 99% of these units in favour of the resolution.

Since the votes against this resolution are minimal, I propose to take the vote by a show of hands, unless a shareholder requests a ballot. Would anyone like a ballot? Therefore, I will now take a vote by a show of hands. All those in favour of the motion? Any against? I declare the motion carried.

Thank you, ladies and gentlemen. This concludes the formal part of today's meeting.

Before I turn things over to Reid, I just want to give Safe Harbour note here. Please note that, during the course of our presentation and in responding to questions about our financial and operating performance, we may make forward-looking statements. These statements are subject to known and unknown risks and future results may differ materially. For further

information on our risk factors, I encourage you to review Acadian's Annual Report and Annual Information Form, which are posted on our website.

With that, I will now ask Reid Carter to make some remarks on the Corporation's year and the year ahead.

**REID CARTER:**

Thank you, Sam. Thank you for joining us this morning. So this morning, I'd like to provide you with an overview of our operations, discuss the Company's achievements and performance in 2012, and provide an update on events so far in '13, as well as our outlook going forward for 2013 and beyond.

So Acadian today, I think, you know, we'll begin with a look at the Company's operations, and most -- many of you will have seen this in the past, but Acadian's a leading supplier of primary forest products in Eastern Canada and the Northeast United States. We have just -- almost 1.1 million acres of private timberlands under management and Acadian is the second largest timberland operator in the New Brunswick and Maine region. Our timberlands have been under active management for over 100 years and our business includes all aspects of forest management, from plantation establishment to timber harvesting, marketing and selling.

Now, let me turn to a review of our performance in 2012. Acadian maintained a solid record of positive safety performance among employees and contractors in our New Brunswick and Maine operations. In fact, our Maine operations posted the twelfth consecutive accident-free year for employees. Importantly, the few accidents -- reportable accidents that occurred were relatively minor and resulted in very little lost time.

I'd characterize 2012 as a year focused on operations, but we also began to benefit from strong demand in pricing for our hardwood pulpwood products and improving markets for our softwood sawlogs, especially in our Maine operations. These improving market conditions and careful attention to costs allowed Acadian to generate net sales of \$68.8 million, and adjusted EBITDA of \$16.5 million on a consolidated sales volume of 1.3 million cubic metres. This resulted in a payout ratio of 98%. We were also successful in improving and stabilizing our harvesting and

hauling contractor communities available in our Maine operations, after being challenged by the introduction of bonded labour restrictions in 2010 and 2011.

We include this chart each year, really to just show you the diversity of the breadth of products we produce for a wide spectrum of markets. Our ability to move between these markets across business cycles, harvesting and merchandizing those products that offer the greatest margin opportunity, continues to be the key to maximizing and stabilizing our earnings. Softwood sawlogs remain stable, sales of softwood sawlogs remained stable at 39% of net sales, with sales volumes increasing by 5% from 2011. The volume of pulpwood sold increased by 1% from 2011, but the total value of sales increased by 6% to 41% of net sales and stronger hardwood pulpwood pricing. Hardwood sawlogs and biomass were 9% and 6% of sales, virtually unchanged from 2011.

Looking at our financial performance in greater detail, we are satisfied with Acadian's financial performance in 2012 given the overall strength of our principal markets. Weak markets for softwood pulp and pine -- and softwood sawlogs negatively affected harvest levels at our New Brunswick operations. This was more than offset, however, by increased harvest levels at the higher margin Maine operations, which benefited from improved summer and fall weather compared to the prior year, along with improved harvesting and hauling contractor availability. This resulted in Acadian generating net sales of \$68.8 million and consolidated sales volumes of \$1.3 million, an effectively unchanged sales volume from 2011. In 2011, adjusted EBITDA margins increased to 24% in from 23% in 2011.

Acadian's improved performance in 2012 resulted in our achieving free cash flow of \$0.84, up from \$0.74 in 2011 and very slightly above our annual dividend of \$0.83, resulting in a payout ratio of 98%. This remains slightly higher than the 95% target payout ratio and we look forward to demonstrating this target is achievable going forward.

I'll now briefly review Acadian's first quarter of 2013. We've maintained what I would say is an enviable safety performance record among employees and contractors at our New Brunswick and Maine operations during the quarter, with the combined operations experiencing no reportable incidents among employees and just one reportable incident among contractors.

Operating conditions were quite favourable during the first quarter, with net sales at \$18.3 million, slipping approximately \$400,000, or 2%, from the prior year. Adjusted EBITDA declined by \$100,000, or 2%, coming in at \$4.7 million, while the adjusted EBITDA margin was unchanged from the first quarter of 2012, at 26%. Free cash flow of \$3.9 million resulted in a payout ratio of 88%, up slightly from 86% in the first quarter of 2012. At the end of the first quarter, Acadian had a cash balance of approximately \$6.4 million, which is nearly equal to the cash balance of \$6.5 million at the same time last year, as free cash flow almost matched dividends paid over the previous 12 months.

This brings me to the outlook section of the talk. Looking at the U.S. housing market for a moment, our optimization regarding the recovery of this market continues to grow. With seasonally adjusted annualized starts up 28% year-over-year and the CoreLogic and Case-Shiller Home Price Indices showing 12% and 11% gains over the prior year, it's clear that we're well into a housing market recovery. As we've noted previously, we believe this recovery of home prices and home building activity removes a major psychological impediment to home buyers standing on the sidelines and should support increased rates of household formation, household wealth, employment and home building. Additionally, mortgage rates, despite having moved up very slightly in the last few weeks, remain very low and housing affordability remains at near record highs, with mortgage underwriting standards becoming more accommodative. While consensus U.S. housing starts forecast is somewhat of a moving target, we believe the risks in most forecasts remain on the upside, with a reasonable collection of forecasters now projecting one million starts for 2013, 1.2 million for 2014, and 1.4 million for 2015. When compared against the 2008 to 2012 average of less than 700,000 starts per year, we believe these levels should result in very strong markets for timber aimed at solid wood products markets.

The above-noted factors led us to become more optimistic with regard to the outlook for softwood sawlog markets in the upcoming year. Acadian's key wood products customers have benefited from exceptionally strong lumber and panel prices over the past six months, encouraging them to increase production, supporting demand in pricing for softwood sawtimber. This improved market dynamic is expected to continue through 2013 despite the very recent pullback in both lumber and structural panel prices. Markets for hardwood sawlogs remains

stable and appear to have a similar outlook for the foreseeable future, and markets for hardwood pulpwood continue to be reasonably strong, with Acadian's major hardwood pulpwood customers all operating and actively competing for deliveries, suggesting prices remain relatively stable in 2013. Prices for softwood pulpwood, a relatively minor product for Acadian, recovered on a year-over-year basis as demand came back into better balance with supply, but the market for this product remains fragile. This is not expected to significantly affect Acadian's financial performance, as softwood pulpwood typically accounts for less than 8% of total sales and a much smaller proportion of free cash flow.

As we've stated before, biomass demand and pricing is expected to continue to face challenges owing to depressed prices for electricity and decades-low prices for natural gas. Despite this challenging market environment, Acadian continues to be able to sell all of its biomass with a stable outlook for customer level pricing.

Acadian benefits from a strong balance sheet, dependable free cash flow and a talented and committed workforce, allowing us to remain confident that Acadian is well positioned to meet its dividend target for 2013 and beyond. In addition, our recent share price performance has given us currency that we believe allows us to properly consider growing Acadian, and over the last six months in particular, we've made a very significant effort at exploring different strategies for growing Acadian. As I say, we now have a strong currency, we've got a strong committed shareholder base, and we are seeing in our broader more Brookfield-related activities aimed at business development across timber opportunities in North America and more globally, improving liquidity. We've see a number of timberland acquisitions that have -- there's been a bit of a bid-ask spread during the global financial crisis, and we're seeing more willing sellers and certainly more products. So I think you should expect going forward that -- as I say, we've got -- the Board is very keen that we explore alternatives as well, and we'll make a concerted effort to see if we can't try to broaden Acadian's operations base and improve the scale of the overall firm.

Our primary goal, however, continues to be to maximize long-term value for shareholders, with our operating strategy being focused on optimizing harvest mix in accordance with market opportunities, focusing on reducing cost wherever possible, actively working to improve timber

selling prices and steadily improving cash flow. We continue to believe Acadian has a high-quality timberland asset base and represents a unique opportunity to invest in a renewable and non-depreciating resource. We look forward to demonstrating this view of our business through steadily improving cash flows in 2013 and beyond, and as I say, we look forward to exploring opportunities to grow Acadian.

This concludes my remarks, Mr. Chairman, and I'll be happy to take any questions. Do we have any questions?

**SAM POLLOCK:**

Well, thanks for coming. The gentleman in the back, thank you for joining us here today as well. We have all the management here. If you'd like to ask questions afterwards, feel free to grab any one of them. And with that, assuming there are no questions, then I declare the meeting terminated.