



ACADIANTIMBER



# **Acadian Timber Corp. 2016 Annual Meeting of Shareholders Webcast Transcript**

**Date:** Thursday, May 26, 2016

**Time:** 10:00 AM ET

**Speakers:** **Ben Vaughan**  
Chairman

**Mark Bishop**  
President and Chief Executive Officer, and Director

**BEN VAUGHAN:**

It's time to start the Annual Meeting of Acadian Timber Corp. My name is Ben Vaughan and as Chairman of the Company, I'll chair the meeting. With me at the head table today is Mark Bishop, who's the President and Chief Executive Officer of the Corporation, and also a Director.

I'll now call the meeting to order and ask Leigh Tang, Corporate Secretary of the Company, to act as Secretary for the meeting; and I would also like to ask CST Trust Company, by its representative Christopher de Lima and Carol Pineda, to act as scrutineers.

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

The notice calling this meeting and the Management Information Circular have been sent to Shareholders. I've asked Leigh Tang to file proof of service of the notice of the meeting with the records of this meeting, and she has done so. The minutes of last year's Annual Meeting, which was held on April 29, 2015, 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 here today and I therefore declare the meeting properly constituted for the transaction of business for which it's been called.

I will now table the Corporation's 2015 Annual Report to Shareholders, which includes the 2015 financial statements, together with the auditor's report. Copies of our Annual Report were mailed to registered Shareholders and are also available here today, if anyone would like one.

We'll now proceed with the election of the seven Directors, each of whom is to be elected at this meeting to hold office until the next Annual Meeting. The particulars of the seven nominees are set out in the Information Proxy Circular which accompanied the notice of the meeting sent to Shareholders. I will now call for nominations for the election of the seven Directors of the Corporation.

Thank you, Linda. Are there any further nominations? Thank you, ladies and gentlemen. Given that there are no further nominations, I declare the nominations closed.

Management has received proxies representing over 95% of the votes cast in favour of each of the Directors nominated. Since the votes withheld for each nominee are minimal, I propose to take the vote by a show of hands, unless a Shareholder requests a ballot. Would anyone like a ballot? Thank you.

So, I'll now take this vote by a show of hands. All those in favour of the motion? Thank you. Any opposed? Thank you. I declare the motion carried.

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

I'd like to take the opportunity now to introduce the other Directors who, in addition to Mark, are with us today and ask them to stand as their names are called. Reid Carter, Phil Brown, David Mann and Saul Shulman. Thank you, gentlemen.

The last item of the formal business is the appointment of the auditors. As stated in the Notice of Meeting, it's the intention of the persons named in the Form of Proxy to vote in favour of a resolution appoint 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 make a resolution for the appointment of the auditors?

**DAVID:**

(Inaudible 5:01).

**BEN VAUGHAN:**

Thank you, David. May I have a seconder?

**SAM:**

(Inaudible 5:23).

**BEN VAUGHAN:**

Thank you, Sam. Adoption of this motion requires the favorable vote of a majority of the votes cast at the meeting by the Shareholders. Management has received proxies representing over 99% of the votes cast in favour of this resolution. Since the votes withheld for this resolution are minimal, I propose to take the vote by a show of hands, unless a Shareholder requests a ballot. So, would anyone like a ballot for this purpose? Thank you. If not, I'll take this vote by a show of hands.

All those in favour of the motion? Thank you. Any opposed?

Seeing none opposed, I will declare the motion carried.

So, thank you, ladies and gentlemen. This now concludes the formal part of today's meeting. Before I turn things over to Mark, 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 our website.

I will now ask Mark Bishop to come forward and make some remarks about the Corporation. Thank you.

**MARK BISHOP:**

Thanks, Ben, and good morning. This morning, I'd like to provide you with an overview of our operations and discuss the Company's achievements and performance in 2015. I'd also like to provide an update on our performance in 2016, and offer our outlook for the remainder of the year.

Let's take a look at the start of our operations today. As many of you know, Acadian is a leading supplier of primary forest products in eastern Canada and in the northeastern U.S. We have

approximately 1.1 million acres of private timberlands under management. Our primary business includes all aspects of forest management, everything from planting, growing and managing of trees to the harvesting, sales and marketing our end products, as well. Acadian's timberlands have been under active management for over a hundred years and we have a very complete and comprehensive infrastructure in place. We've structured in order to flow through the majority of our cash flows to our Shareholders.

I'll now turn to a review of Acadian's performance through the past year, in 2015, and begin with comments on safety. I'm pleased to report that Acadian maintained a solid record of safety performance among employees and contractors in 2015, and, in fact, posted our 15th accident-free year for our employees in our Maine operations, something we're very proud of. Importantly, the very few reportable incidents and accidents that did occur were relatively minor and resulted in very little lost time.

Acadian takes sustainability of its forest practices very seriously and I'm pleased to report that we were once again successful in recertifying our operations under the widely recognized Sustainable Forestry Initiative. We're also pleased to note that during 2015, the Maine operations became the third timberland owner in Maine to enter into an Outcome Based Forestry Agreement with the Maine Forest Service. The agreement provides an alternative to prescriptive regulations under the current Forest Practices Rules, allowing landowners more flexibility to achieve objectives while achieving state-wide sustainability goals.

Acadian ended the year posting best-in-class timberland investment performance, relative to both public and private market segments. This performance was true for the year, but also for the decades since inception. As many of you are aware, this is our 10-year anniversary since going public in 2006. Our total return, annualized return, which is a combination of cash yield and capital appreciation, through that decade was 13.1%, and this compares to 5.7% for the best public timber REIT through that period, and at 2.2% for the average through that period, so a remarkable relative performance for Acadian, and it also compares to 7.9% for private timberlands as reported by NCRIF.

We view this track record as a clear demonstration of Acadian's disciplined focus on maximizing Shareholder value and remain highly committed to that objective in the pursuit of our business strategies, and I'll speak a little more on this shortly.

During 2015, Acadian benefited from continued strong demand and pricing for our hardwood pulpwood products, consistent demand and pricing for softwood sawlogs, and highly favourable harvesting conditions through the year. The combination of these factors allowed Acadian to post our best performance since inception, with net sales up another 9% year-over-year, following a record 2014.

Acadian benefits from a deep mix of customers serving broadly varied markets, as demonstrated on this slide. Our sales mix was relatively unchanged year-over-year, with our softwood sawlog and hardwood pulpwood sales driving most of our operating earnings. Pricing for hardwood pulpwood, in particular, has been exceptionally positive, with this segment accounting for approximately 36% of sales. Hardwood sawlogs, a relatively small but profitable segment of our business, have also benefited from strong and increasingly stable market conditions over the past few years. Softwood pulpwood continues to be a challenging business segment for Acadian, owing to the decline of the groundwood paper mills mainly in Maine. Fortunately, this is a relatively small business for Acadian.

A comparison of Acadian's year-over-year performance emphasizes the strong performance achieved in 2015. Net sales increased by \$7 million, while our Adjusted EBITDA increased by \$4.6 million, with our EBITDA margins moving up approximately 3% year-over-year to 31%. Acadian's free cash flow per share was substantially higher again in 2015, with our declared dividends resulting in a payout ratio of 70%, an improvement from 78% in 2014. Acadian had net liquidity of \$98.5 million at the end of December 2015, including funds available under Acadian's revolving facility and our standby equity commitment from Brookfield. The strong financial performance, together with our strong balance sheet and confidence in our ability to continue performing well, resulted in a decision to increase our annual dividend by 11% to \$1.00 per share per year, effective with the January 2016 dividend payment. Acadian remains very well positioned for the future.

I'll now turn to our performance during the first quarter of 2016. As reported on May 9, conditions for Acadian's New Brunswick operations were typical for the winter season, but the Maine operations experienced warmer and less favourable conditions than in the winter of the prior year. Demand for

hardwood continued to be strong, but markets for softwood pulpwood, particularly in Maine, have become more challenging. Net sales declined by 13% to \$21.4 million, which was mainly attributable to a 13% decrease in sales volume. Acadian's EBITDA declined by \$1.7 million and free cash flow decreased by \$0.08 a share, resulting in a payout ratio of 68%, which includes the increased dividend. I would further note that our first quarter performance was again impacted by the deferral of sales into the second quarter, owing to managed inventory program we maintain with our largest sawlog customer.

I'll briefly review the outlook for 2016. Acadian's performance for 2016 is expected to remain positive and we are in a solid position to fund our dividend within its target payout ratio throughout the year. The fundamentals for a continued recovery in residential construction activity, including low interest rates, a sustained improvement in the labour market and rising personal incomes among young adults, should continue to draw more potential homebuyers into the housing market. Consensus for 2016 U.S. housing starts remain strong at about 10% year-over-year growth.

We expect softwood sawlog demand to remain stable through 2016, despite uncertainty regarding the softwood lumber trade negotiations with the U.S. We do, however, anticipate that ongoing challenges for softwood saw mill residual demand in Maine will maintain pressure on sawlog pricing in that market for the remainder of the year. The softwood pulpwood market continues to be challenging and hardwood sawlog markets are expected to remain at current favourable levels. While we continue to expect hardwood pulpwood markets to experience some moderation in 2016, they have remained resilient.

Biomass markets remain generally positive in New Brunswick, but Maine's commercial biomass energy generators significantly curtailed operations during the first quarter in response to regulatory changes in Massachusetts and Connecticut, and also lower energy prices. Recent Maine legislation backing public subsidies may assist one or two of these facilities to restart, but this remains a temporary solution.

Acadian has been very active in its pursuit of growth opportunities over the past few years, but, as you know, has been challenged by very aggressive competition for timberland investments and unusually low investment return expectations among buyers. In this context, we believe that it was prudent to

take a step back to review a range of strategic alternatives and initiatives, including a possible sale of all or parts of the business, a merger or other business combinations, or other strategic transactions.

Our process, which included a detailed internal review with Management and Board, was initiated in late October, but, as you know, was press released in early February. This process, which has now been concluded, allowed us to re-evaluate and confirm that Acadian was on the right path, and continues to be on the right path, to maximize value to Shareholders over the long term. The Special Committee had determined that it is in the best interest of Acadian Shareholders to continue to seek growth on an opportunistic basis, while Management continues to operate the Company with a disciplined focus on maximizing value.

In terms of our 2016 objectives I just noted, we'll continue to focus on maximizing value for Acadian's Shareholders. We benefit from the diversity of our product mix and we'll continue to optimize our harvest mix in accordance with market opportunities. As always, we'll work to maximize our margins by focusing on reducing costs and improving timber selling prices, with a goal of steadily improving our free cash flow from operations.

Finally, as I've just described, we continue to be disciplined but committed in our approach to grow Acadian. As Shareholders, you should recognize you have a strong and highly committed Management and Operating Team that continues to work to ensure Acadian's success today continues going forward.

That concludes my formal remarks and I now welcome any questions.

Well, I think that concludes the formal agenda. I'll turn it back to Ben.

**BEN VAUGHAN:**

Thanks, Mark. So, ladies and gentlemen, as there are no further questions or comments, I'd like to thank you all for coming today and for your participation and attendance. We hope you found the meeting informative. This does bring us to the end of today's meeting. As there is no other business, I'll declare the meeting terminated, and we will be around for a period of time after the meeting and happy to take any further questions. Thank you very much.