  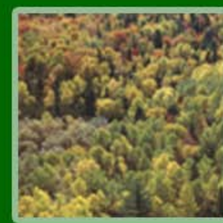 

Acadian Timber Corp.
First Quarter 2011 Conference Call Transcript

Date: Tuesday, May 3, 2011

Time: 10:00 AM ET

Speakers:

Mr. Reid Carter
President and Chief Executive Officer

Brian Banfill
Senior Vice President & Chief Financial Officer

OPERATOR:

At this time, I would like to turn the conference over to Mr. Brian Banfill, Senior Vice President and Chief Financial Officer. Please go ahead, Mr. Banfill.

BRIAN BANFILL:

Thank you, Operator, and good afternoon, everyone.

Welcome to Acadian's First Quarter Conference Call.

Before we get started, I would like to call your attention to the following.

This conference call is being webcast simultaneously through our website at www.acadiantimber.com, where you can also find a copy of the press release, including the financial statements.

Please note that in responding to questions and talking about our financial and operating performance and outlook for 2011, we may make forward-looking statements.

These statements are subject to known and unknown risks and I encourage you to review Acadian's annual information form, dated May -- March 28, 2011, for further information.

These filings are available on SEDAR at www.sedar.com and our website.

I will start by outlining the financial highlights of the first quarter, then Reid Carter, our Chief Executive Officer, will conclude with more general comments about our operations, market conditions and outlook for the remainder of 2011.

Effective for the first quarter 2011, Acadian's financial results are reported in accordance with International Financial Reporting Standards. For Acadian, the key differences between IFRS reporting and the previous Canadian generally accepted accounting principles are that our timber, the land on which the trees grow and the road systems used to access the timber are carried at current appraised values, adjusted for growth and harvest since the appraisal date.

And we no longer report charge for depletion. Instead, we record the charge for the fair value of timber harvested in a period and, most importantly, recognize the estimated value of timber grown.

We believe the accounting treatment recognizes the sustainable nature of our operations.

The comparative figures I will discuss today have been adjusted to conform to IFRS.

Led by a 17% increase in softwood sales volumes, Acadian's first quarter net sale increased $1.4 million over the same period in 2010, to $21.8 million. The total first quarter sales volume of 426,000 cubic meters was up 6% from 401,000 cubic meters in the comparable period last year, with a 7% decrease in the Maine operations more than offset by a 10% increase in the New Brunswick operations.

Acadian generated EBITDA of $7.3 million, or 33% of sales, which was $1.5 million higher than the amount generated in the first quarter of 2010. Our results benefited from robust sales to local customers and a higher contribution from the land management services contract.

The sales to closer proximity customers resulted in lower deliver costs, improving overall margins. Most of Acadian's customers entered the first quarter with relatively low inventory and operated normally throughout the quarter, creating solid demand, particularly for hardwood pulpwood, where pricing remains strong.

Net income for the quarter was $2.9 million. Included in the quarter's net income was a $1.1 million non-cash deferred income tax expense. This expense has not been included in our calculation of EBITDA or free cash flow and is not reflective of the operating performance of Acadian during the period.

Free cash flow in the quarter was $7.1 million or $0.42 per share, as compared to free cash flow of $5 million, or $0.30 per share in the first quarter of 2010.

In February, we completed the refinancing of our Canadian and US dollar denominated loan facilities, replacing them with a facility provided by the Metropolitan Life Insurance Company that will mature on March 1, 2016.

The facility includes a revolver of up to USD10 million for general purposes and a term credit facility in an amount up to 7 -- up to USD72.5 million.

The term facility bears interest at a fixed rate of 3.97%. However, the rate lock agreement Acadian entered into in the fourth quarter of 2010 reduces the effective rate to 3.6%.

Maintenance covenants of -- are limited to loan-to-value tests based on annual appraised values.

I will now briefly review the segmented results for Acadian's New Brunswick and Maine operations.

The New Brunswick timber lands results reflected 10% year-over-year increase in sales volumes and increased activity on the land managed on behalf of others, offset by a decrease in the average selling price of 2%, owing to a greater proportion of sales being to closer proximity markets.

The weighted average selling price was $46 per cubic meter in the first quarter of 2011, as compared to $47 in the same period last year. Net sales were $17.9 million on sales volume of 353,000 cubic meters, compared with net sales of $16.4 million on sales volume of 322,000 cubic meters in the first quarter of last year.

Sales volumes in the first quarter was comprised of approximately 40% saw logs, 40% pulpwood and 20% biomass.

This compares to 39% sold as saw logs, 43% as pulpwood and 18% as biomass in the first quarter of last year.

Total costs for the first quarter were $11.6 million, as compared to $11.4 m in the comparable quarter of 2010.

Variable costs per cubic meter were 8% lower than in the first quarter of 2010, primarily as a result of an increased proportion of sales made to closer proximity markets, resulting in lower transportation costs.

First quarter EBITDA for the New Brunswick operations was $6.4 million, or 35% of sales, as compared with EBITDA of $5.1 million, or 31% of sales, in the first quarter of 2010.

Higher softwood volumes, increased hardwood prices and more activity on the Crown land operations all contributed to the significant year-over-year improvement.

Switching to our Maine timber lands operations, net sales in the first quarter were $3.8 million on sales volume of 74,000 cubic meters, in line with net sales of $4 million on sales volume of 79,000 cubic meters in the same period of 2010. On a US-dollar-basis, softwood saw log prices moved up 12% compared to the first quarter of 2010 and hardwood saw log and pulp prices gained 18% and 24% respectively.

These improvements resulted in a weighted average selling price in US dollar terms, increasing $4 per cubic meter over the same period in 2010, to $52 per cubic meter, a solid 8% increase.

Approximately 58% of Maine's volume was sold as saw logs, 36% as pulpwood, 6% as biomass. This compares to 57% sold as saw logs, 40% as pulpwood and 3% as biomass in the first quarter of 2010.

Total costs for the first quarter of 2011 of $2.6 million were 8% lower than the same period of 2010.

Decreased harvest volumes were the primary contributor to this decrease, although a 5% drop in variable costs per unit in Canadian dollar terms also helped. Variable costs per unit in US dollar terms increased 1%.

First quarter EBITDA for the Maine operations in both 2010 and 2011 was $1.2 million, while the EBITDA margin in the first quarter of 2011 moved up slightly to 32% of sales, compared to 29% of sales in the first quarter of 2010.

Typical of Acadian's winter operating season, there were no material capital expenditures during the first quarters of 2010 or 2011.

At the end of the first quarter, Acadian had a cash balance of $11.3 million, which is $8.4 million higher than our net cash position of $2.9 million at the same time last year and is $4 million higher than our cash position at the end of the fourth quarter of 2010.

At March 26, 2011, Acadian had the full balance of USD10 million of available credit remaining on its revolving facility. Our balance sheet remains strong and our cash flow is expected to continue to improve, leaving Acadian well positioned for the future.

I will now turn the call over to Reid.

REID CARTER:

Thank you, Brian, and good afternoon.

Despite several heavy winter storms, operating conditions were good during the quarter. Acadian performed well, delivering $0.42 per share, or $7.1 million, of free cash flow. This an improvement of $2.1 million, or $0.12 per share, over the first quarter of 2010.

We've benefited from relatively high operating rates and tight wood supplies among our softwood saw logging customers, despite the continued weak US housing market.

Safety performance continued to be strong, with no reportable safety incidents among our employees. There were two minor reportable safety incidents among contractors, from which one of the individuals has fully recovered and the other is expected to be available for spring start up.

As you know, Acadian takes the safety -- its commitment to safety very seriously, as we believe that emphasizing and achieving a great safety record is a leading indicator of success in the broader business. We remain very, focused on safety requirements and look forward to reporting continued progress in the future.

Acadian's weighted average selling price across all products decreased by 1% year-over-year, largely attributable to deliveries to closer proximity customers, which resulted in lower freight costs, which are typically borne by the buyer.

Hardwood pulp, a key product for Acadian, accounting for 28% of consolidated sales volume, experienced a 14% year-over-year increase in selling price. This compared to selling price for softwood pulpwood, which declined 9%, although this product only accounted for 12% of consolidated sales volume.

Prices for softwood and hardwood saw logs decreased by 1% and increased 7% respectively in the first quarter of 2011, as compared to the same period of 2010. While pricing remained relatively stable for Acadian softwood saw log products, the volumes for this key higher margin product increased 17% year-over-year.

Biomass prices declined 22% due to a higher proportion of stumpage sales and generally weak biomass and energy markets. Biomass sales volume was 23% higher in the first quarter of 2011, as compared to the same period of 2010.

Other sales increased to $1.6 million from $1.2 million in the comparable period of 2010, due to increased harvest activity in the land Acadian manages on behalf of others. This land -- this level of land services agreement contribution is expected to continue through 2011, as licensees maintain high harvest levels aimed at utilizing unused harvest volumes for the 2008, 2009 period in the final year of their five-year cut-control period.

Markets for softwood saw logs have benefited from relatively high operating rates and tight wood supplies among regional sawmill operations, despite the continued weak US housing market. Additionally, in our Maine operations, several regional competitors are struggling to find contractors, owing to state government efforts to limit Canadian labor's access to work in Maine. And this has further supported pricing for those that are able to operate.

Acadian has benefited from a stable contractor work force in Maine, although we did find our operating levels were negatively impacted late in the quarter by the tight contractor market.

While we remain cautious in our outlook, as lumber demand and prices are expected to remain weak through the remainder of 2011, most of Acadian's regional saw milling customers appear to have entered the spring breakup period with modest inventories, which is expected to result in solid demand during the late second and early third quarters of 2011.

Markets for softwood pulp continue to be strong, although the recent announcement that a large regional groundwood producer in Maine has not been able to find a buyer will be closed indefinitely, is expected to put pressure on softwood pulpwood pricing over the medium term. This mill closer is, however, expected to be partially offset by a large regional hardwood and softwood pulp producer's announcement of a conversion of a significant part of their production from hardwood to softwood pulp.

Early indications are also promising that there is good demand for this additional softwood pulpwood.

Markets for hardwood pulpwood are expected to remain stable and positive through 2011, owing to high levels of production of local pulp mills. Markets for hardwood saw logs have improved over the past year, but the outlook remains less certain as demand is more closely tied to new home formation and repair and renovation activity.

Biomass demand and pricing continue to be stable, although somewhat soft. The market situation we expect to remain in place, unless or until support for bioenergy markets is put in place.

We are encouraged by this increasingly widespread evidence of improving market conditions,. As demand continues to improve, we will focus on harvesting and merchandising to meet market opportunities, while actively seeking to improve prices.

We thank you for your continued support of Acadian Timber and remain confident in Acadian's long-term outlook and the quality of our asset base.

That concludes our formal remarks and we are ready to take any questions from participants on the line.

Operator?

OPERATOR:

Thank you. We will now begin the question-and-answer session.

Our first question today comes from Paul Quinn of RBC Capital Markets. Please go ahead.

PAUL QUINN:

Yes. Good morning, afternoon, depending on where you are.

Just a question on conversion to IFRS. I see this -- the fair value adjustment, $1.6 million in the quarter, essentially taking the place of depreciation. How -- if I went back and took a look at the historicals do they move up or down as a result of if you convert it to IFRS?

BRIAN BANFILL:

If you went back to where they would be under GAAP? Is that the question?

PAUL QUINN:

Yes. Yes. Well, if I look at Q1, I guess the question is, if I look at Q1 '10, it looks like it moved down under IFRS.

BRIAN BANFILL:

That's correct. Because in Q1 '10, the fair value -- sorry, it's moved down under IFRS? It should have -- on a fair value basis, that portion of the adjustment should have been positive, because in 2010 in Q1 we reported depletion.

PAUL QUINN:

Right.

BRIAN BANFILL:

And in 2010, in Q1, under IFRS, there was a net, basically, a net zero fair value adjustment.

PAUL QUINN:

Okay. Okay. So maybe I --

BRIAN BANFILL:

We should have improved results from -- under the IFRS scenario from that.

PAUL QUINN:

Well that's what I figured. Maybe I'll take that offline.

Maybe you can just -- in terms of the comment on solid demand on modest inventories in the area of sawmills, what is that inventory level? And what sawmills are you referencing? Both New Brunswick and Maine? Or outside as well?

BRIAN BANFILL:

Both Maine and New Brunswick sawmill and, frankly, our -- most of our pulpwood customers didn't get the deliveries that they would have liked to have received in the first quarter.

As you know, they have spring breakup to contend with the second quarter, so they typically try to carry large inventories in. Most -- for a variety of reasons, very heavy, heavy snow, and as I mentioned, the contractor issue in Maine, didn't result in them getting the deliveries that they really wanted. And so we expect that when it comes to late May, early June, most of these mills will be very short and will be in a position to want to rebuild their inventories back to normalized levels.

So it's really across the board. I don't have any specific numbers on individual mills, but I can -- but certainly our eastern township mills, along Maine, the sawmills and the New Brunswick mills, that was the case.

PAUL QUINN:

Okay. In terms of the comment on the large regional groundwood producer closed indefinitely, I get that one. But the conversion at the hard and softwood pulp producer, who is that?

BRIAN BANFILL:

That's Woodland. Woodland, Maine.

PAUL QUINN:

Okay.

BRIAN BANFILL:

Yes.

PAUL QUINN:

And just a question on overall timberland markets. Where do you see the current level of interest in North America? And is there still a sort of a [bid-ask] spread between buyers and sellers?

BRIAN BANFILL:

There still has been a dearth of transactions. We certainly saw the TimberWest offer of a few weeks ago and we had two other larger transactions in the first quarter.

Our impression is that there has been some substantial capital raised by most of the US-based TMOs. We would guess that there is between $3 billion and $4 billion of committed un-invested capital, which is probably more than double what was there a year or 15 months ago.

We -- there seems to be renewed interest both in timberland ownership on the part of investors, but there also seems to be some new enthusiasm -- increasing enthusiasm about the outlook for particularly some of the softwood timber products and China related and bark beetle-related issues.

So, it's our expectation that we're going to see some very good support for timberland pricing over this -- the remainder of this year and going forward. Whether that relates to lower discount levels will just really depend on anybody's view of what underwriting assumptions to use for those future markets.

PAUL QUINN:
Great. That's all I had. Thanks, guys.

BRIAN BANFILL:
Great. Thank you.

OPERATOR:
There appears to be no further questions. I'll turn the call back to Mr. Reid Carter for any closing comments.

REID CARTER:
Well, thanks very much for your attention to our performance. We appreciate that. And, certainly, we look forward to having improving performance going forward.

So we'll wish you a good day and we're certainly available, as always, to answer any further questions.

Thanks very much. Bye.

OPERATOR:

Ladies and gentlemen, this concludes today's conference call. You may now disconnect your lines.

Thank you for participating and have a pleasant day.