

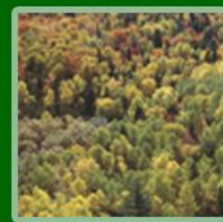


Acadian Timber Corp.

2012 First Quarter Results Conference Call & Webcast Transcript

Date: Wednesday, May 02, 2012

Time: 1:00 PM 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 first quarter operating and financial performance and outlook for 2012, 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 known risk factors, I encourage you to review Acadian's annual information form dated March 28, 2012, and other filings of Acadian with securities regulatory authorities which are available on SEDAR at www.sedar.com and on our website. I will start by outlining the financial highlights for the first quarter, then, Reid Carter, our Chief Executive Officer, will conclude with more general comments about our operations, market conditions and outlook for 2012.

Acadian's first quarter net sales decreased $3.1 million over the same period in 2011 to $18.6 million. The total first-quarter sales volume of 352,000 cubic meters was 18% below the 426,000 cubic meters sold in the comparable period of last year. Operating conditions were excellent in January and February, but exceptionally warm weather in March led to an early spring break up, reducing harvest and sales volumes for the quarter. Sales volumes were further impacted by the implementation of a short-term vendor managed inventory, or VMI, program, with one of our larger customers. At the end of the quarter we held 72,000 cubic meters of harvested logs in inventory related to this VMI program.

As purchased commitments are filled under the program over the next two months, additional sales of approximately $3.4 million and adjusted EBITDA of approximately $1.5 million are expected to be realized. Acadian generated adjusted EBITDA of $4.8 million, equivalent to 26% of sales, which was $2.5 million lower than the amount generated in the first quarter of 2011.

The weighted average sales price across all softwood and hardwood products climbed 7% year-over-year primarily due to changes in the sales mix and a greater proportion of sales to more distant markets during the quarter. These pricing gains were offset by the delayed recognition of sales, particularly of our are higher margins spruce-fir sawlogs due to the VMI program and a lower contribution from the Land Management Services Agreement

Net income for the quarter was $4.4 million. Included in the quarter's net income was a $1.8 million unrealized foreign exchange gain on long-term debt, a $0.4 million negative fair value adjustment and a $0.9 million deferred income tax expense. These expenses have not been included in our calculation of adjusted EBITDA or free cash flow and are not reflective of the operating performance of Acadian during the period. Although adjusted EBITDA was $2.5 million lower than the amount generated in the first quarter of 2011, free cash flow fell by $3 million over the same period, as the timing of cash interest payments was affected by the refinancing of Acadian's debt that was completed in February of last year.

I will now briefly review the segmented results for Acadian's New Brunswick and Maine operations. Prices for the saw timber products sold by the New Brunswick timberlands were effectively flat compared to the first quarter of 2011 while softwood and hardwood pulp log prices were up 16% and 5% respectively over the same period last year. The weighted average selling price was $47.79 per cubic meter in the first quarter of 2012, up 3% from $46.37 realized in the same period last year, reflecting a higher proportion of hardwood pulp logs in the mix and the improved pricing for this product.

Net sales were $13.2 million for the first quarter 2012, down $4.8 million from $17.9 million in the same period of 2011. This drop is primarily attributable to the impact of the VMI program, but a $0.7 million drop in revenue from the Land Management Services Agreement due to reduced harvest volumes also contributed to the decline.

Sales volume in the first quarter was comprised of approximately 31% sawlogs, 46% pulpwood and 23% biomass. This compares to 40% sold as sawlogs, 40% as pulpwood and 20% as biomass in the first quarter of last year, with the drop in the sawlog proportion resulting from the aforementioned VMI program.

Total cost of the first quarter of 2012 was $10 million as compared to $11.6 million in the comparable quarter of 2011, reflecting lower harvest volumes. Average variable costs per cubic meter were 16% higher than the first quarter of 2011 as a result of increased sales of hardwood pulpwood to more distant customers in the United States, higher fuel costs, and higher contractor costs.

First quarter adjusted EBITDA for the New Brunswick operations was $3.1 million, equivalent to 25% of sale as compared to adjusted EBITDA of $6.4 million or 35% of sales in the first quarter of 2011. Adjusted EBITDA declined as a result of the impact of the VMI program on sales volumes, reduced harvest volumes due to an early spring breakup and the decreased contribution from the Land Management Services Agreement. The decrease in adjusted EBITDA margin reflects the reduced proportion of higher margin of softwood sawlogs in the sales mix and the impact of reduced sales volume on fixed cost absorption.

In our Maine timberlands operations, net sales in the first quarter were $5.5 million on sales volume of 95,000 cubic meters, a substantial 44% improvement over net sales of $3.8 million on a sales volume of 74,000 cubic meters in the comparable period of 2011. The favorable weather conditions early in the quarter greatly assisted in achieving this more typical harvest level for the period, but we also benefited from strategies implemented to improve contractor availability.

Higher proportions of softwood saw timber and hardwood pulp logs and improved prices for hardwood pulp logs led to a 13% increase in the weighted average selling price across all products. In Canadian dollar terms, the average selling price for the first quarter was $57.50 per cubic meter as compared to $51.00 in the same period last year. Approximately 63% of Maine's volume was sold as sawlogs, 36% as pulp wood and 1% as biomass. This compares to 58% sold as sawlogs, 36% as pulpwood and 6% as biomass in the first quarter of 2011.

Total cost for the first quarter of 2012 of $3.7 million were $1.1 million higher than in the same period of 2011. This increase was primarily the result of the 31% increase in harvest, but variable cost per cubic meter in Canadian dollar terms did increase by 22% due to changes in contractor rates driven by increased fuel costs and greater distances from the harvest site to mill delivery locations.

Increased sales volumes compared to the first quarter of 2011 resulted in adjusted EBITDA climbing $0.6 million for the Maine operations to $1.8 million from $1.2 million in the prior year. Improved sales values were mostly offset by increased costs resulting in the adjusted EBITDA margin being 33% of sales for the first quarter of this year, almost equal to the 32% margin realized in the first quarter of 2011. There were no material capital expenditures in Acadian's operations during the first quarter of 2012 or 2011.

At the end of the first quarter, Acadian had a cash balance of approximately $6.5 million, a $2.5 million improvement over our cash position at the end of the fourth quarter of 2011 primarily due to reduced accounts receivable. At March 31, 2012, Acadian had the full balance of $10 million of available credit remaining on its revolving facility. Our balance sheet remains strong leaving Acadian well-positioned for the future.

I will now turn the call over to Reid.

REID CARTER:
Thank you, Brian, and good afternoon. Our strong commitment to safety continues to show positive results and we're pleased to report that Acadian's operations did not experience any recordable safety incidents among employees or contractors during the first quarter. As you know, Acadian takes its commitment to safety very seriously, reflecting our belief that emphasizing and achieving a good safety record is a leading indicator of success in the broader business. We remain very focused on employee health and safety performance and look forward to maintaining excellent results in future quarters.

The strategies we initiated in the second quarter of 2011 to address the contractor availability challenges in our Maine operations were successful in achieving improved harvest levels during the first quarter. We also benefited from cold and clear operating conditions that were as good as many people could remember during the first two months of the quarter. Cold mid-January temperatures with little snow to prevent the ground from freezing turned normally wet areas to stone and contractors were able to move freely. Minimal snow also meant contractors avoided plowing costs, an associated drain on manpower. Unfortunately, these conditions didn't last very long with temperatures climbing in to the mid-20s in the third week of March, bringing early road closures.

Turning to log markets. Prices and cost of Acadian softwood and hardwood products increased 7% year-over-year, although this change was largely due to changes in the sales mix and sales to more distant markets. Prices for softwood sawlogs increased 5% year-over-year with this increase in average price primarily related to the greater proportion of sales coming from Acadian's Maine operations, where softwood sawlogs attract stronger prices; prices for hardwood sawlogs increased by 2% and selling prices for hardwood and softwood pulpwood increased by 6% and 14% respectively year-over-year. Biomass markets also remained stable.

U.S. housing markets sent mixed signals during the winter months with mild winter weather supporting positive news that may simply have reflected second-quarter sales being pulled forward into the first quarter. We continue to believe that recovery of the U.S. housing market will not occur until the broader economy improves with concurrent employment growth and improving consumer confidence, along with the decline in the inventory of unsold homes and homes in foreclosure to more normal levels. Despite these broad economic challenges, most of Acadian's softwood sawmilling customers are maintaining active operations and demand for spruce fir sawlogs continues to be reasonably strong. Market for hardwood sawlogs remains stable and appears to have a similar outlook for the foreseeable future.

Markets for hardwood pulpwood remains strong with Acadian's major hardwood pulp customers all operating and actively competing for delivery, suggesting prices remain stable through year end. Softwood pulpwood markets are increasingly soft as there is being an ample supply of sawmill residuals and too little demand from regional pulp mills. As a result, we expect softwood pulpwood prices to continue to soften through the summer.

Biomass markets continue to face significant market challenges. Core generation plants associated with manufacturing facilities are generally in good shape while stand-alone wood-to-energy plants continue to suffer from depressed prices for energy, for electricity and decade low prices for natural gas. Despite this challenging market environment, Acadian continues to be able to sell all of its biomass with a stable price outlook.

We'd like to remind everyone that owing to the additional softwood sawlog and pulpwood volumes held in inventory the end of March as a result of our VMI program, second-quarter sales and related to cash flow are expected to be considerably stronger than has historically been the case. With our strong balance sheet and talented team, we remain confident of our ability to meet our financial obligations through 2012.

In summary, we expect 2012 to present improving, although uncertain, conditions. We thank you for your continued support of Acadian Timber and remain confident at Acadian's long-term outlook and the quality of our asset base. That concludes our formal remarks and we are available to take any questions from participants on the line. Operator?

OPERATOR:
The first question comes from Andrew Kuske of Credit Suisse. Please go ahead.

ANDREW KUSKE:
Thank you. Good afternoon. I guess this is a question for Reid, although Brian probably could also add some commentary. Do you have any view on your outlook on costs say for the remainder of this year and then into 2013? Just in the context of there was some commentary on fuel costs have obviously risen, the distance of the delivers of the products has actually been extended. So, just how do you think about your costs in the next 12 to 24 months? And then as a supplement to that, or maybe part of the answer, is also what are you doing with contractors on trying to get more favorable agreements with them?

REID CARTER:
Well, I think no question in all of our operations we have seen upward cost pressure. Most of our contractors really didn't see any contract pricing improvements through the 2009 and '10 and frankly to 2011 and we were certainly putting lots of pressure on them to keep prices down, our costs down during that difficult market period. I mentioned that we've gained much better contractor availability and performance, particularly in our Maine operations, year-over-year in the first quarter, and no question a part of that was increasing prices to our contractors.

A recent survey carried out in Maine by one of the large industry associations suggests that contractor costs are up in the neighborhood of 10% to 14% and we would agree with that. So, part of that is fuel. Fuel is, Brian, I think 20% to 25%, in the neighborhood of 15% of our costs. So, it has a meaningful impact, but we've also seen increased contractor rates. In our New Brunswick operations we've seen increases as well but they've being more modest, but certainly the contractors have needed to be compensated a little more fully this past year.

BRIAN BANFILL:
Andrew, you asked about the distance issue. That really doesn't affect the margins at all because we are fully compensated for that on the sales side. So, although a greater distance to market caused our costs to go up, we are compensated on the sales side so, again, not a negative factor from a margin point view.

ANDREW KUSKE:
Okay. That's helpful. I guess a bigger, broader question that's related. If we do see an ongoing recovery in the U.S. housing market and we need more wood fiber supply to really meet that increased housing demand over the next year, two years, three years, do you have concerns about contractor availability and really the pricing power that they may have as volumes start to ramp up?

REID CARTER:
I think we still believe we have a very competitive contractor workforce and we don't expect that we are going to see any kind of untoward increases in contractor rates associated with any kind of monopolistic situation. So I think we are quite comfortable that we have got good contractors. I think

much of our production challenges last year were weather related as much as they were contractor availability. We had some very difficult weather and when you get a good winter like this I think it was quite impressive just how much volume a single contractor can bring out.

I think we believe our costs will be manageable. I think we had expected that costs -- we have known for the last couple of years that we are going to have to do this catch up and I think we largely believe it has taken place.

ANDREW KUSKE:
And then finally, if I may, just on the weather; clearly, the weather impacted you in March. How has it been quarter to date so far?

BRIAN BANFILL:
Well, I think as you are probably aware, when we have spring breakup which should come a couple of weeks early this year, which takes us out of the woods and also, most importantly, keeps us from hauling on the roads as they thaw out. We've actually had some relatively warmer dry weather through part of the time which leads us to believe that we are going to get back into our operations earlier. We actually have got back into a couple of our small operating areas that we typically would not get back in until more like sort of the end of May, very early June. So, we think we will be back operating a little earlier than normal given the early start to breakup.

ANDREW KUSKE:
Okay. That's very helpful. Thank you.

OPERATOR:
The next question comes from Paul Quinn of RBC Capital Markets. Please go ahead.

PAUL QUINN:
Thanks very much. Just a couple of questions; one on the Land Management Services Agreement; you mentioned that compensation is coming down. Could you give us a little bit more color on that?

BRIAN BANFILL:
I think that was, in the first quarter that is really just volume driven. It was the sub-licensee activity on our license number nine that we managed under this agreement was significantly down year-over-year. If you look back, you'd find it has also been quite high in the fourth quarter of last year. So, we really think this was just sort of a quarter-to-quarter shift. We don't think there was any significant planned reduction in activity on those licenses, but I would point out that over the last two years, as we've mentioned a number of times, that license was, in the last year and a half, it was in the final year of its cut-control-period. So, after falling behind in licensee harvest levels, they were working very hard to capture the full 110% of volumes. So, the total volume that was achieved in that last year is expected to be higher than you'd see this year just because we are now back in the first year of our cut-control period.

PAUL QUINN:

Okay. Thanks. That's helpful. Then just on amendment to your agreement with Twin Rivers, maybe you can give us some color on that?

BRIAN BANFILL:
Well, I think as we mentioned last quarter, the pricing mechanism under the fiber supply agreement with Twin Rivers is meant to reflect market pricing and, as we had said, that agreement has historically been based on the average purchase price from the five largest non-Acadian suppliers of timber or spruce-fir sawlogs to Twin Rivers. Owing to the fact that Twin Rivers closed its Juniper sawmill a few years ago and also acquired some additional crown license volumes, there was a situation where we both agreed that the outside non-Acadian volumes were no longer representative of the market. So, we have set a number of minimum volume criteria in there to ensure that we do represent the market. And that change, which we are confident will result in a much better market measure, will take place January 1, 2013.

PAUL QUINN:
Any help in trying to quantify that difference?

BRIAN BANFILL:
We feel, I guess it's fairest to say that we felt that the current historic pricing mechanism was disadvantaging Acadian and we believe that the new mechanism will reflect market.

PAUL QUINN:
All right, great. Thanks. That's all I had. Good luck.

BRIAN BANFILL:
Thanks.

OPERATOR:
There are no more questions at this time. I will now turn the call back over to over to Mr. Carter for closing remarks.

REID CARTER:
Well, once again, thank you very much for participating in Acadian's first quarter conference call. As always, we'd welcome your questions. If you have any further questions, please feel very to follow up. Thank you and enjoy the rest of your day.

OPERATOR:
Ladies and gentlemen this concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.