



ACADIANTIMBER



# **Acadian Timber Corp. Annual General Meeting Webcast Transcript**

**Date:** Wednesday, April 29, 2015

**Time:** 10:00 AM ET / 7:00 AM PT

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

**Reid Carter**  
President and Chief Executive Officer

**SAM POLLOCK:**

Good morning, ladies and gentlemen. It's my pleasure to welcome everyone here today. It's now just about 10 o'clock 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 today 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 CST Trust Company, by its representative, Christopher Voutsinas – hope I got that right – and Laurie Grinton (phon 0:41), to act as Scrutineer.

Before we turn to the business before us, I would 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 pleased to discuss any questions you may have.

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

The minutes of last year's Annual Meeting held on May 13<sup>th</sup>, 2014, 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 the business for which it has been called.

I will now table the Corporation's 2014 Annual Report to Shareholders, which includes the 2014 financial statements, together with the Auditor's Reports. Copies of our Annual Report were mailed to registered shareholders and are also available here today.

We will now proceed with the election of seven Directors, each of whom is to be elected at this meeting to hold office until the next Annual Meeting. Particulars of the seven 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 seven Directors of the Corporation.

Thanks, Linda. Are there any further nominations?

As there are no further nominations, I declare the nominations closed. 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 by acclamation.

I would now like to introduce to you the other Directors who, in addition to Reid, are with us today and ask them to stand as their names are called: Bud Bird, Mark Bishop, Phil Brown, David Mann, Saul Shulman and Ben Vaughan. Thank you, gentlemen.

In addition to our Directors, we also have a number of Officers here today, and I'd like to name them as well and have them stand up. First we'll start with Brian Banfill, who is our Chief Operating Officer; Marcia McKeague, Vice President of Maine Operations; Luc Ouellet, Vice President of New Brunswick Operations; and Kevin Topolniski, who's our Chief Forester. Thank you.

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?

Great, thank you, David. Can we have a seconder?

Great, 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 67% of the Corporation's shares. These proxies direct Management to vote over 99% of these units in favour of this 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?

As not, I will take a vote by show of hands. All those in favour of this 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, as this is my last meeting as Chairman and as a Director, I'd like to express my gratitude to the shareholders and the other Board members for including me on the Board and allowing me to contribute in a small way to the Company's success. I'm very excited about the Company's prospects, and I will continue to follow the Company's progress closely.

I will end my comments with our Safe Harbour message, noting that during the course of our presentation and 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 risk factors, I encourage you to review Acadian's Annual Report and Annual Information Form, which are posted on our website.

I will now ask Reid to make some comments on the Corporation.

**REID CARTER:**

Thank you, Sam, 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 2014. I would also like to provide an update on our events so far in 2015 and offer our outlook for the remainder of the year. Let's begin with a look at our operations today. Acadian is a leading supplier of primary forest products in eastern Canada and the northeastern US. We have approximately 1.1 million acres of private timberlands under management, and our primary business is all aspects of forest management, so that's everything from the planting and growing and managing of trees to the harvesting, sales and marketing of our end products. Acadian's timberlands have been under active management for over a hundred years, we have a very complete and comprehensive infrastructure in place, and we're structured in order to flow through the majority of our cash flows to shareholders.

I will now turn to a review of Acadian's performance through the past year, 2014. Acadian continued to focus on operations in 2014 while also continuing to pursue our growth strategy which we introduced in the summer of 2013. We benefited from strong demand and pricing for our hardwood pulpwood

products and significant improvements in markets for our leading product, softwood sawlogs. These improving market conditions allowed Acadian to generate net sales that were up 4% year-over-year. Costs were very well contained, while we increased production in response to improved market conditions, resulting in significant improvements in cash flow, which I'll cover in a moment.

I'm also pleased to report that Acadian maintained its solid record of positive safety performance among employees and contractors at our New Brunswick operations and, in fact, posted our 14th accident-free year for our employees in our Maine operations. Importantly, the very few reportable 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.

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 35% 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 18 months.

Softwood pulpwood continues to be a challenging business segment for Acadian, owing to the decline of the groundwood paper mills in the region. Fortunately, this is a very small business segment for Acadian.

A comparison of Acadian's year-over-year performance demonstrates our continuing improving performance. Net sales increased by \$3 million, while our Adjusted EBITDA increased by \$4.3 million, with our EBITDA margins moving up approximately 5% year-over-year to 28%.

Acadian's free cash flow per share was substantially improved in 2014, with our declared dividends resulting in a payout ratio of only 78%, down from 100% in 2013. Acadian had net liquidity of \$79.9 million at the end of December in 2014, including funds available under Acadian's revolving facility and

our standby equity commitment with Brookfield. This 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 dividend by 11% to \$0.90 per share per year, effective with our April 2015 dividend payment. Acadian is well positioned for the future.

I'll now turn to our performance during the first quarter of 2015. As reported yesterday, Acadian had a very strong first quarter. In fact, this was Acadian's second best first quarter since its inception. Net sales increased by 16% to 24.7 million dollars, after increasing 16% year-over-year in 2013. Acadian's EBITDA increased by 2.1 million dollars and free cash flow increased by \$0.12 per share, resulting in a payout ratio of only 50%. This strong performance actually understates our performance in the first quarter as we deferred sales into the second quarter owing to a managed inventory program we maintain with our main softwood sawlog customer. This solid first quarter puts Acadian in a very good position for the remainder of 2015.

In terms of our outlook for the remainder of the year, we have a positive outlook for softwood saw timber and for hardwood products. While recovery of the US housing market continues to face many challenges, almost all industry watchers continue to forecast a steady recovery. Our softwood lumber producing customers appear to share in this outlook as they announce new capital investments and maintain additional shifts in their mills. Markets for hardwood sawlogs and pulpwood are currently stable and are also expected to stay strong throughout 2015.

We expect markets for softwood pulp products to remain challenging, but as I mentioned earlier, we're fortunate that this product accounts for only a very small portion of Acadian's sales and an even smaller amount of our operating earnings. Finally, challenging conditions in biomass markets have begun to improve, with supply becoming increasingly constrained and export markets providing additional tension.

In terms of our growth strategy, we've continued to very actively pursue our activities related to growing Acadian. We've been active throughout the US, South America and Australasia, and despite having had no demonstrable success to date, we continue to be excited about this strategy and remain confident that we'll be successful in growing Acadian accretively while improving the attractiveness and

liquidity of Acadian's shares. Acadian shareholders should be very confident that all such potential investments will be subject to review and approval by Acadian's independent directors.

In terms of our 2015 objectives, 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. Finally, as I've just described, we plan to be successful in growing Acadian.

Just before I conclude my final remarks, I'd like to comment on the management changes announced in yesterday's press release. Brookfield, as Acadian's manager with the full support of Acadian's Board, will be bringing Mark Bishop on as President and Chief Executive Officer of Acadian effective May 1<sup>st</sup>, 2015. Mark is a senior member of the Brookfield timberlands management team whose primary focus over the past seven years has been on business development activities outside of North America. In addition to his leadership role at Acadian, Mark will remain actively engaged in these business development activities. Mark brings over 25 years of forest industry experience to the President and CEO position. Prior to joining Brookfield, he was a top-ranked paper and forest products research analyst, and he's also held various forest industry operating and financial conditions with large paper and forest products companies. I will continue to be very engaged with Acadian as the leader of Brookfield timberlands management and as an active Board member.

In reflecting on my past nine years as President and Chief Executive Officer of Acadian, I feel very lucky. I've had the absolute pleasure of working with a Board that's talented, committed and engaged in every way. They've also been a pleasure to work with and for. I look forward to working with all of them going forward as a Board member with Acadian. Marcia McKeague and Luc Ouellet and Kevin Topolniski, who are here with us today, have made my job easy. Their leadership and strong owner/operator ethic has ensured that our operations have run smoothly while remaining nimble in the marketplace. My colleague, Brian Banfill, has also played a critical role as Acting Chief Financial Officer and Chief Operating Officer. Together, this is a very strong team, a team that will remain absolutely in place as Mark takes over as President and CEO. I look forward to working with Acadian and will work to ensure that Acadian's success to date continues going forward.

This concludes my formal remarks, and I would now welcome any questions. Yes?

**MALE SPEAKER:**

(Inaudible 17:28).

**REID CARTER:**

Brookfield, as manager of Acadian, is engaged in very broad global timberlands operations. We have operations in Brazil, we have active business developments in New Zealand, Australia, and we have large timberlands in Western Canada. Our first large timber investment outside of Brazil was in coastal British Columbia, and we built our timber team, our corporate team in Vancouver, and because that team is active across these broader geographies, it made sense to have the head office there.

Kevin Topolniski, who is with us today, is a Brookfield employee and so, together with two others, is present at all times in the operations, helping the corporate team keep an eye on things. We also have very, very comprehensive internal reporting and controls that gives us confidence that the operations had good oversight, and certainly after nine years, we're increasingly comfortable that that's been the case.

In regard to travel expenses related to visits from our corporate offices to Acadian's operations these would be at the Manager's expense. The Manager is paid a management fee each year, and the cost of us having to visit operations and the like are borne by the manager and not by Acadian.

Any other questions? . I think that concludes today's formal agenda.

**SAM POLLOCK:**

If there are no further questions, I will terminate the meeting. Thank you very much for everyone joining us today and look forward to seeing what happens next year. Thanks.