WEST FRASER TIMBER CO. LTD.

Q1 2025 EARNINGS CONFERENCE CALL

APRIL 23, 2025 - 10:00AM ET

CORRECTED TRANSCRIPT

OPERATOR

Good morning, ladies and gentlemen, and welcome to the West Fraser Q1 2025 Results Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Wednesday, April 23, 2025.

During this conference call, West Fraser's representatives will be making certain statements about West Fraser's future financial and operational performance, business outlook, and capital plans. These statements may constitute forward-looking information or forward-looking statements within the meaning of Canadian and United States securities laws. Such statements involve certain risks and uncertainties and assumptions, which may cause West Fraser's actual or future results and performance to be materially different from those expressed or implied in these statements. Additional information about these risk factors and assumptions is included both in the accompanying webcast presentation and in our 2024 annual MD&A and annual information form, which can be accessed on West Fraser's website or through SEDAR+ for Canadian investors and EDGAR for United States investors.

I would now like to turn the conference over to Sean McLaren, President and Chief Executive Officer. Please go ahead.

SEAN P. MCLAREN, PRESIDENT AND CHIEF EXECUTVE OFFICER

Thank you, Joelle. Good morning, everyone, and thank you for joining our first quarter 2025 earnings call. I am Sean McLaren, President and CEO of West Fraser. And joining me today in our Quesnel office on the day of our Annual General Meeting are Chris Virostek, Senior Vice President and Chief Financial Officer; Matt Tobin, Senior Vice President of Sales and Marketing; and other members of our leadership team.

On the earnings call this morning, I will begin with a brief overview of West Fraser's Q1 2025 financial results and then pass the call to Chris for additional comments before I share some thoughts on our outlook and offer concluding remarks.

West Fraser generated $195 million of adjusted EBITDA in the first quarter of 2025, representing a 13% margin and a meaningful improvement over last quarter. Of particular note, our Lumber segment had its best result in more than two years, on the back of better SPF demand and pricing. New home construction continued to show signs of stabilization, with annualized U.S. housing starts averaging nearly 1.4 million units in the first quarter, as elevated mortgage and interest rates continued to challenge housing demand. Similarly, repair and remodeling demand is also relatively stable, though remains somewhat subdued. Complicating matters, we are now dealing with the uncertainty of tariffs and their potential inflationary effects that have the potential to affect future demand for our wood building products. We'll continue to watch these developments closely.

Over the trailing 12 months, we generated $668 million of adjusted EBITDA, representing an 11% margin — a meaningful improvement from the $561 million reported during the most recent trough year of 2023. This level of trailing EBITDA, while still well below our view of mid-cycle economics, is largely sufficient to cover our capital allocation priorities, including key capital expenditures, our quarterly dividend, and opportunistic share repurchases.

In terms of our balance sheet, we had nearly $1.5 billion of available liquidity exiting Q1 and a healthy cash position, even net of debt. A strong balance sheet and liquidity profile, along with our investment-grade rating, remain key elements of our capital allocation strategy that allow us to invest in our business counter-cyclically and take advantage of growth opportunities if, and when, they arise.

With that overview, I'll now turn the call to Chris for additional detail and comments.

CHRIS VIROSTEK, CHIEF FINANCIAL OFFICER & SENIOR VICE PRESIDENT, FINANCE

Thank you, Sean. And a reminder that we report in U.S. dollars, and all my references are to U.S. dollar amounts, unless otherwise indicated.

The Lumber segment posted adjusted EBITDA of $66 million in the first quarter, compared to $21 million of adjusted EBITDA in the fourth quarter. This improvement is mainly explained by higher product pricing and higher SPF shipment volumes, offset in part by lower SYP shipment volumes that were impacted by weather-related transportation disruptions in the U.S. South.

Our North America EWP segment continued to lead the business in EBITDA generation, with $125 million of adjusted EBITDA in the first quarter, similar to the $127 million of adjusted EBITDA reported in the fourth quarter.

The Pulp & Paper segment generated $7 million of adjusted EBITDA in the first quarter, compared to a $10 million adjusted EBITDA loss in the fourth quarter that had been impacted by a major maintenance downtime event at Cariboo Pulp.

Our European business realized negative $2 million of adjusted EBITDA in the first quarter, versus positive $2 million in the fourth quarter, with the slight decrease driven mainly by pricing.

In terms of our overall results, higher product prices for our Lumber business and lower costs for Lumber and North American OSB were the largest contributing factors to the sequential EBITDA improvement in Q1 versus Q4. We continue to see the financial benefits of the portfolio optimization initiatives that we've undertaken — initiatives that allow us to shift select production to our lower-cost operations.

Cash flow from operations was negative $75 million for the first quarter, with our cash balance at $390 million, down from $641 million last quarter. The relative decrease in our cash balance reflects increased earnings in Q1 being more than offset by the seasonal build of working capital from winter logging operations, $104 million of capital expenditures, and approximately $72 million of cash deployed towards share buybacks and dividends.

In terms of our guidance for 2025, both our Lumber and North American OSB segments have experienced a slower-than-expected start to the year, owing primarily to transportation and weather-related challenges that temporarily disrupted shipments. While we expect to catch up on these delayed shipments, we are conservatively reducing the top end of our 2025 shipment guidance ranges for SPF, SYP, and OSB.

As the U.S. administration’s tariffs and other trade policies evolve — including the Section 232 investigation into U.S. lumber imports — we will revisit the impact of the tariffs on our operations and consider whether any further revisions to our 2025 guidance forecast are required.

Regarding softwood lumber duties, on April 4, 2025, the U.S. Department of Commerce released preliminary CVD results for AR6, based on the year 2023. Our preliminary CVD rate for AR6 is 16.57%, combined with our preliminary ADD rate for AR6 of 9.48%. Our preliminary combined rate for AR6 is 26.05%, which is, in fact, the lowest preliminary rate in the Canadian industry. Final rates are expected to be released in the second half of this year.

With that financial overview, I'll pass the call back to Sean.

SEAN P. MCLAREN, PRESIDENT AND CHIEF EXECUTVE OFFICER

Thank you, Chris.

Looking forward, we see considerable macroeconomic uncertainty, particularly stemming from the U.S. administration's evolving tariff policies. However, we want our employees and shareholders to recognize that despite many unknowns, West Fraser is well-positioned to navigate challenging business environments like those we face today. Our focus on low cost, combined with a broad mix of product segments and a wide geographic operating footprint, has been built to help provide us with a strong foundation that supports resilience.

Such financial resilience is no more evident than what we see in our quarterly segmented results, as shown on slide 9. Our Lumber segment improved dramatically in Q1, posting the segment's best result in two-and-a-half years and making a significant positive contribution to overall profitability. As we have said many times since the Norbord acquisition in 2021, while OSB and Lumber share many end-use markets, their demand drivers are not perfectly correlated and their supply fundamentals are materially different.

Shifting briefly to tariffs — at this time, we're unable to provide much in the way of commentary related to the potential impacts on our business from tariffs or the Section 232 investigation that is currently underway. We will continue to monitor the situation closely and prepare to respond as needed. As we noted last quarter, we are being proactive and preparing by:

- Remaining policy current and maintaining close communications with our provincial and federal governments;
- Actively scenario planning in our business to prepare for a range of outcomes;
- Preparing our business operations and updating our operational plans so that they can quickly align to various scenarios; and
- Preparing and engaging our employees, our communities, and our customers for what may lie ahead.

In closing, at West Fraser, we aim to deliver strong financial results through the business cycle. We achieve this by leveraging our product and geographic diversity, low-cost assets, and the dedication of our people and culture that is rooted in cost discipline and a commitment to operate responsibly and sustainably. And this fundamental strategy will not change, even in a world with significant policy uncertainty.

Although our near-term outlook is admittedly cloudy given the broad implications of a potential global trade war, we remain optimistic about the longer-term prospects for our industry and for West Fraser, and we look forward to continuing to build one of the world's leading building products companies.

Thank you. And with that, we'll turn the call back to the operator for questions.

OPERATOR

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Ketan Mamtora with BMO Capital Markets. Your line is now open.

<Q – Ketan Mamtora >: Good morning, and thanks for taking my question. Perhaps to start with, in your prepared remarks, you talked about a slow start to the year, but that was driven mainly by weather and transportation challenges. I'm curious, as we move through April — we're getting into the busiest time of the year — what kind of demand trends you are seeing, both in lumber, which has more repair and remodeling, and OSB, which has more new residential exposure? Can you provide some colour, some context, in terms of the demand trends today?

<A – Sean P. McLaren >: Yeah. Good morning, Ketan. I'm going to turn that question to Matt Tobin.

<A – Matthew Tobin >: Good morning. I'd say lots of uncertainty over the quarter. So, I think customer purchasing and commentary has been somewhat subdued — like, somewhat cautious, I would say. But, you know, normal demand drivers, and not seeing any significant changes from what we have in the last couple of quarters.

<Q – Ketan Mamtora >: Understood. So, is it fair, in terms of expectations, as you guys plan for the year — are you still looking at kind of flattish of a year in terms of volume? And we will just keep the tariff point aside at this point — or is there any change in view there?

<A – Sean P. McLaren >: I'll make a comment, and Matt can fill in what I miss here. I think, Ketan, it was a slow start for weather on both sides of the border and transportation issues. Saying that, our inventories still remain in reasonable shape. And we expect, barring noise around tariffs — which are really difficult to predict — volumes kind of normalizing going forward. We dropped the top end of our guidance, but still expect to fall within that.

<A – Matthew Tobin >: Agree. Nothing to add.

<Q – Ketan Mamtora >: Got it. Okay. And then, switching to capital allocation — obviously, the balance sheet is still in a very good shape after a very difficult 2024 in Lumber. As you sit here today, can you talk about how the M&A pipeline is looking, and if you see more interesting values today versus share repurchases? I know you did repurchases in Q1. So, can you talk about those two options that you have in front of you? And then, within M&A, how you are thinking about Lumber versus OSB?

<A – Sean P. McLaren >: Yeah, maybe I'll touch on growth opportunities and then turn it over to Chris. So — and I know we've maybe commented on this over the last number of quarters — the bar remains quite high in West Fraser for what growth looks like. We've worked hard to get our portfolio in a place where we feel like we can compete through the cycle. And so, anything we add to the portfolio is going to have to meet a level of quality that's going to compete all the way through. And so, I would say from my perspective, that's the backdrop. So, there probably is opportunity, but very few that fit that. And you can look at our history with Allendale, with Angelina, with Spray Lakes — all those acquisitions either immediately made us stronger or had a very clear path to making us stronger. And if those present themselves, we've got all options open to us to be able to take advantage of that. Chris?

<A – Chris Virostek >: Yeah. I think just to round it out a bit on capital allocation, we've positioned ourselves financially in that we can maintain a durable capital allocation strategy that's fairly well cycle-agnostic. And when we look at the last couple of years, what we've been able to do: we've been able to buy back shares, we've paid down debt, we've raised the dividend, we did the Spray Lakes acquisition, we've invested in our business. I think we've done all those things that generate returns for shareholders and make the company stronger over the long term. So, I think the great thing is that we don't find ourselves in a position that options are removed from us. We have the full suite of things in front of us that we can do. And the things that add the most value are the ones that we're going to choose, and we're going to prioritize. And that, we think, over the long term, is the strategy that creates real value, and we're not pivoting strategies cycle-dependent on whether the market is robust or the market is weak. And we're building the company for the long term.

On the M&A front, I think Sean covered it well. Quality is really important. I think the other thing to consider right now, too, is with the macro backdrop and the uncertainty that exists relative to tariffs, it's a pretty difficult time to price assets when you have this kind of uncertainty overhanging things. So, it makes that situation a bit more challenging to figure out how you price things over the longer term.

<Q – Ketan Mamtora >: Thank you. That's very helpful. I'll jump back in the queue.

OPERATOR

Your next question comes from Sean Steuart with TD Cowen. Your line is now open.

<Q – Sean Steuart >: Thanks. Good morning, everyone. A couple of questions. Sean, I know you mentioned reluctance to talk about the Section 232 investigation, but I guess if you have any perspective on timing for resolution there? I think it's a November deadline, but it sounds like things are progressing quickly. And if you or your lawyers have any perspective on OSB potentially getting wrapped up in this investigation, in addition to Lumber — any perspective there?

<A – Sean P. McLaren >: Yeah. Good morning, Sean. Not a lot to comment there. We really don't know. We really don't have visibility to what will be included, what won't be, what the timing is. We probably hear some of the same commentary, but really nothing to add to what you may have heard. And the only other thing I would add — which I touched on in my comments — is that we have a long history dealing with lumber duties and reacting our operations and operational plans accordingly. And I think we also have a long history in OSB of flexing our production relative to demand. And I think all those — that's really where we're focused, whatever comes down in the next number of months here.

<Q – Sean Steuart >: Okay. And that, Sean, is adding any incremental production to the South, at the expense of Canadian production at the margin, to mitigate any incremental impact?

<A – Sean P. McLaren >: Yeah. And I think you look at our platform, and we're split evenly on our major products between the two countries. You could see where our investments have been, as we've strengthened and positioned our assets in the U.S., and we have a good Canadian platform that we think competes well in Canada. So, I think all of those things give us lots of options to navigate through whatever comes.

<Q – Sean Steuart >: Okay. Thanks for that. And a question on the CapEx guidance, which you've reiterated here — I guess with inflation risks back on the radar here, I would assume all your discretionary projects this year are sort of locked in with respect to cost. Maybe confirm if that's the case? And, if inflation is an issue over the mid-term, do you have perspective on how discretionary CapEx returns might trend into 2026 and beyond? Is that a concern for the company?

<A – Sean P. McLaren >: Yeah, good question. So, a large part of our guidance for this year is finishing up Henderson. We're in the final stage of that project. The team's in place. We're getting ready for that start-up this summer. I look at Dudley, Allendale, Chambord, and the success we've had in our recent start-ups. So, we're pretty excited to get going at Henderson and having a new scale sawmill in East Texas, and that location is – we think – is a good place to be. We don't have major projects beyond that. A lot of the projects are minor in nature, and they need to stand on their own at the time we make those commitments, given what the pricing will be of that equipment. And so, even though we haven't seen material changes in that pricing, if we do, those projects are still going to need to be able to stand on their own, given that additional cost.

<Q – Sean Steuart >: Understood. That's all I have for now. Thanks very much.

<A – Sean P. McLaren >: Thanks, Sean.

OPERATOR

Your next question comes from Hamir Patel with CIBC Capital Markets. Your line is now open.

<Q – Hamir Patel >: Hi good morning. Sean, we've seen at least one OSB project in industry stall due to tariff-related cost escalation. Do you expect the tariff uncertainty to slow some of the other OSB projects that are underway?

<A – Sean P. McLaren >: Really, really tough for me to speak to that, Hamir. I can only speak to how we look at it in West Fraser. And what I would say is, our two most recent projects, Allendale and Chambord, are up, they're running, they're progressing well. And any kind of future projects — major projects — we look at in OSB, we'll be taking the cost of that equipment and any inflationary changes into account before we make those decisions.

<Q – Hamir Patel >: Okay, thanks. Thanks, Sean. That's helpful. And just a question for Matt. I'm curious if you're seeing signs of more builders substituting SPF with Southern Yellow Pine, and if you're noticing any, maybe, differences there between builders across regions or public, private builders?

<A – Matthew Tobin >: I would say, too early to say today as to substitution. I think what we see over the quarters has been normal purchasing from our customers. And I think it's something we're monitoring over time for that substitution. But, to date, we haven't seen any significant shifts.

<Q – Hamir Patel >: Okay. Fair enough. That's all I had. I'll turn it over. Thanks.

<A – Sean P. McLaren >: Thanks, Hamir. [Operator Instructions]

OPERATOR

Your next question comes from Matthew McKellar with RBC Capital Markets. Your line is now open.

<Q – Matthew McKellar>: Hi, good morning. Thanks for taking my questions. You talked about demand for your products used in R&R remaining somewhat subdued in Q1. Could you maybe just expand on that comment, talking about how demand has trended so far just into the first few weeks of Q2, and how that progression in demand into the spring would maybe compare to what you'd see in a typical year?

<A – Matthew Tobin >: Sure. So, we don't have a great view into R&R. So, while an imperfect view, we think our best lens really into R&R is our treated customers. And so, we've seen the demand subdued in the last several quarters. And I would say we haven't seen a meaningful shift in that demand to date. So, I think with the age of housing stock, we believe there's lots of long-term demand for R&R, but it's remained subdued in the last several quarters, and we haven't seen a significant shift to start this quarter.

<Q – Matthew McKellar>: Okay. Thanks for that. And then, last for me — you talked a bit about log shortages in your SPF business in the quarter. Can you give us a sense of how those log inventories look today, as we kind of sit here in mid Q2?

<A – Sean P. McLaren >: Yeah, I would say, generally, the weather was warm here in Western Canada. So, in particular, in parts of our BC operations, log deliveries were less than we were expecting. Saying that, I think it will be similar to Q1. We kind of have balanced out managing that inventory disruption between Q1 and Q2. So, not material in the whole scheme of things, but an impact in SPF.

<Q – Matthew McKellar>: Great. Thanks very much. I'll turn it back.

<A – Sean P. McLaren >: Thanks, Matthew.

OPERATOR

There are no further questions at this time. I will now turn the call over to Sean for closing remarks.

SEAN P. MCLAREN, PRESIDENT AND CHIEF EXECUTVE OFFICER

Thank you, Joelle. As always, Chris and I are available to respond to further questions, as is Robert Winslow, our Director of Investor Relations and Corporate Development. Thank you for your participation today. Stay well. And we look forward to reporting on our progress next quarter.

OPERATOR

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.