WEST FRASER TIMBER CO. LTD.

Q2 2025 EARNINGS CONFERENCE CALL

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CORRECTED TRANSCRIPT

OPERATOR

Good morning, ladies and gentlemen, and welcome to West Fraser's Second Quarter 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]

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, 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 as updated in our quarterly MD&A, which can be accessed on West Fraser's website or through SEDAR+ for Canadian Investors, and EDGAR for U.S. Investors.

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

SEAN P. MCLAREN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Jenny. Good morning, everyone, and thank you for joining our second quarter 2025 earnings call. I am Sean McLaren, President and CEO of West Fraser, and joining me on the call today 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 Q2 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 $84 million of Adjusted EBITDA in the second quarter of 2025, representing an approximate 6% margin, as we continue to operate within a cyclical downturn. After several months of relatively stable homebuilding markets, new home construction has more recently taken a step lower with annualized U.S. housing starts averaging just 1.32 million units on a seasonally adjusted basis in the second quarter as relatively elevated mortgage and interest rates have continued to present headwinds to U.S. housing demand and affordability.

Repair and remodeling demand has also appeared to be impacted by these broader macro factors, remaining somewhat subdued again this quarter. As an additional consideration, we continue to deal with the shifting landscape of tariffs and their possible inflationary effects that have the potential to moderate future demand for our wood building products. We'll continue to watch these developments closely.

These factors notwithstanding, our balance sheet continues to demonstrate strength as we exited Q2 with nearly $1.7 billion of available liquidity and a strong cash position net of debt. A strong balance sheet and liquidity profile, along with our investment grade rating, remain key elements of our capital allocation strategy, which allow us to invest in our business counter-cyclically and take advantage of growth opportunities if and when they arise.

With that brief 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 $15 million in the second quarter compared to $66 million Adjusted EBITDA in the first quarter, with the sequential change driven largely by lower pricing, higher fiber costs, and inventory valuation adjustments required due to the drop in lumber pricing close to the end of the quarter. Our North America EWP segment generated $68 million of Adjusted EBITDA in the second quarter, down from $125 million in the first quarter, with the sequential change driven largely by lower OSB pricing and inventory valuation adjustments.

The Pulp & Paper segment generated negative $1 million of Adjusted EBITDA in the second quarter compared to $7 million in the first quarter with the sequential change again largely attributable to an inventory write-down. Conversely, our European business posted a $2 million of Adjusted EBITDA in the second quarter versus negative $2 million in the first quarter with the sequential improvement linked to higher OSB pricing and shipments in U.K. and European markets.

In terms of our overall Q2 results, lower product prices for our lumber and North American OSB products and inventory valuation adjustments were the largest contributing detractors as compared to Q1. While supply and demand experienced imbalances for a number of our key products in the second quarter, we were able to see some of the financial benefits of the portfolio optimization initiatives we have previously undertaken. This approach allowed us to shift select production from higher cost mills to a number of our lower cost operations, helping to mitigate some downside financial exposure.

Cash flow from operations was $285 million in the second quarter with our net cash balance at $310 million, up from $156 million in the prior quarter. The relative increase in our net cash balance reflects the large seasonal release of working capital, offset in part by lower earnings, $78 million of capital expenditures and nearly $60 million of cash deployed towards share buybacks and dividends. I am also pleased to note that in the second quarter, we successfully amended and extended our $1 billion credit facility and increased and extended our $300 million term loan up from the prior $200 million.

In terms of guidance for 2025, both our Lumber and North American OSB segments continue to experience softer than expected demand levels, owing to ongoing challenges with housing affordability and repair and remodeling markets. As such, we are modifying our 2025 shipments guidance ranges for SPF, SYP, and North American OSB as per the updated ranges shown on slide 7. Further to these guidance revisions, if and 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 any tariffs on our operations and consider whether any further revisions to our 2025 guidance forecasts are required.

Regarding softwood lumber duties, on April 4, 2025, the U.S. Department of Commerce released preliminary CVD rates for Administrative Review Period 6 based on the year 2023. Our preliminary CVD 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 the lowest preliminary rate in the Canadian industry. Final rates are expected to be released in the coming days and weeks. If the AR6 rates were to be confirmed, they would result in an expense of $65 million before the impact of interest for the period of review covered by AR6, increasing the export duties payable recorded on our balance sheet.

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

SEAN P. MCLAREN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Chris.

Looking forward, we continue to monitor shifting macroeconomic conditions that are being complicated by evolving trade policies. However, despite this backdrop, the company remains well positioned to navigate the dynamic business environment we face today. Our focus on controlling costs and optimizing our mill portfolio and production across different segments and geographies has been purposeful in an effort to create a more resilient company.

You should expect us to continue to be flexible in our operating strategy, which will allow us to meet the needs of our customers while keeping our focus on a safe working environment for our employees, as well as operationalizing the benefits of our strategic capital to drive down costs. And we will do all this while sticking to a balanced capital allocation strategy that includes investment in positive NPV projects while maintaining sufficient liquidity to support the pursuit of opportunistic growth and return of capital to shareholders.

Shifting now to tariffs. As the Prime Minister has indicated publicly, the Government of Canada is presently engaged with the United States in discussions about bilateral trade broadly. West Fraser and the Canadian industry continue to work closely with our federal and provincial governments and are prepared to support these discussions when called upon as they relate to softwood lumber. As we've said before, we continue to monitor the Canada–U.S. trade situation closely and remain agile and ready to respond as needed.

Specifically, we remain policy current so that we can be well prepared for whatever outcomes unfold. We continue to actively scenario plan in preparation for a broad range of trade related and macroeconomic outcomes. We continue to prepare our business operations and operational plans to be quickly aligned to various scenarios, which includes our long-maintained variable operating strategy to optimize how we meet our customers' needs. And finally, we continue to prepare and engage with our employees, our communities, and our customers for what may lie ahead. While we are unable to provide any kind of certainty to our stakeholders, we believe it is important to be as transparent as possible and to commit to regular communications should events warrant.

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 rooted in cost discipline and a commitment to operate responsibly and sustainably. And we will be steadfast with this fundamental strategy even in a world with significant uncertainty. Although our near-term outlook remains somewhat cloudy given the broad implications of ongoing complexities in global trade, we are optimistic about the longer-term prospects for our industry and for West Fraser, and we look forward to continue to build one of the world's leading sustainable 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] And our first question is from Ben Isaacson from Scotiabank. Your line is now open.

<Q – Ben Isaacson >: Thank you very much and good morning, everyone. Just two quick ones for you, Sean, and then one for Chris. Sean, have you seen a pivot in the trend or maybe I'll ask a different way. What have you learned, if anything, about the substitutability between SPF and SYP over the past two or three quarters? Have you seen a shift in the price elasticity of demand?

<A – Sean P. McLaren >: Yeah, good morning, Ben. I'll make a few comments and then I'm going to ask Matt to fill in what I miss. I think as we've seen over the last number of years that the spreads between the products – the price spreads – move around quite a bit. In a period of higher demand, they tend to close as people search for the products they need. In periods of lower demand like we've seen over the last year, those spreads have separated and they really become more supply/demand driven within that species. So, in the south, where you have more supply and less currently R&R demand where new home building, which is more directed to SPF and of course lower supply in Western Canada – it's really hard to kind of predict exactly what's happening there, but we think that's driving some of the spreads. And there is substitution when products are not available, but when they're available and customers have a preference and they're willing to pay that difference, then that spread persists. Matt, would you have anything to add to that?

<A – Matthew Tobin >: No, I think that's a good summary. And I'd say, it's really up to the customer preference as to which one of our products they're looking to apply to their end use.

<Q – Ben Isaacson >: Great. Thank you. And my second question for you, Sean, is the media has been talking a lot about a possible lumber export quota. What are your general views on this? And why was this frowned upon in the past?

<A – Sean P. McLaren >: Yeah, I'll make a few comments here, Ben. Again, I think as you can imagine, with the complexity of the current trade discussions on many product fronts and all product fronts between Canada and the U.S., there's a lot of balls in the air, and I think the industry has really been standing ready to support the government when the opportunity presents itself for that dialogue, and the government has been supportive and clear with us that softwood lumber will be part of those discussions. So, as a result, I think all options are on the table for those discussions. And hard for us to speculate what that looks like, but we will be ready to support our government and the governments in those discussions as part of the broad industry coalition of what is best long term for the industry.

And I think just as specific to West Fraser, we have a long history of dealing with different border measures in lumber; a long history of flexing our production in other products. And whatever that border measure is, we think we're well positioned with the assets we have, our cost position, and finally our integrated model, which allows us to optimize within that system. That's probably all I would make on that question, Ben.

<Q – Ben Isaacson >: That's great. Thank you, Sean. And then just one for Chris. Chris, I'm not sure how comfortable you are talking about this, but can you just give a sense of magnitude of – are you cash flow positive right now in the North American lumber business at where pricing is right now? And then the same question for the North American OSB business.

<Q – Chris Virostek >: Yeah, I think we're going to steer clear of talking about any one particular segment or business relative to sort of day-to-day pricing trends. I think...

<Q – Ben Isaacson >: Sure.

<A – Chris Virostek >: ...if you look at how the business has performed through what's been a pretty tough lumber cycle going on two years, the diversity of our products being in not only OSB but the other panel products, which have been important contributors, the portfolio optimization work that we've done, we think we've built a pretty strong business here that can weather what comes at us here. And our counter-cyclical investing, we've been continuing to spend capital to lower costs. We've been flexing production. We were early in the process in terms of mill closures and removing high-cost production.

So, the way I would look at that is – look, we've been at this for a long time. It's in our DNA to deal with the cycles that we have and to drive cash flow even in difficult markets. Obviously, there can reach points where it's very difficult from a pricing standpoint, but those are – we're doing everything we can to make sure those are transitory and short-lived. And I think our dedication to investing in the business and being durable with our capital allocation allows us pretty well to weather those short periods when those things can get dislocated.

<Q – Ben Isaacson >: That's really helpful. I'll pass it on. Thanks so much.

OPERATOR

Thank you. And our next question is from Ketan Mamtora from BMO Capital Markets. Your line is now open.

<Q – Ketan Mamtora >: Hi. Good morning and thanks for taking my questions. Sean, just going back to Ben's earlier question on quota. Is it fair to say then that West Fraser is open to having a potential quota if that were to be the case? Is West Fraser open to that?

<A – Sean P. McLaren >: Yeah, good morning, Ketan. I think West Fraser, our position along with the entire Canadian industry is, as you can imagine in this moment with so many trade issues between the two, between Canada and the U.S. – and lumber consistently, historically being off to the side and being separate, including lumber in a broader trade deal is our focus and our priority in supporting our – supporting the Canadian government in those discussions. And I think to give the Canadian government the ability to be able to navigate through that, I don't think there's been anything that the industry has taken off the table. And we are aligned with the industry in supporting the federal government in those negotiations and inclusion of lumber. We have to see what all those details look like in the end, but that is where we're at today, Ketan.

<Q – Ketan Mamtora >: Perfect. No, that's helpful. And then just one more. So far, as trade is concerned, on Section 232 investigation, do you have any update? Anything that you can share with us in terms of sort of timelines or any other information you've got and whether OSB is also included in that investigation?

<A – Sean P. McLaren >: We really don't, Ketan. We don't have any additional insight into the timing, the nature of it, what that might look like. This is really something that is controlled completely by the U.S. administration on their timing and as part of their overall thought process around trade between various countries. And as you are, I'm sure, well aware, there are a number of Section 232 investigations currently underway that affect a lot of products. So, we don't have any other insight other than what you would have reading publicly on Section 232. And just to reinforce, we think whatever happens, whether it's lumber or OSB for a border measure, quality of our assets, our cost position and our integrated model, we think we're able to compete whatever that looks like.

<Q – Ketan Mamtora >: Got it. No, that's helpful. And then maybe, Chris, would you be able to share with us sort of operating rates in the second quarter for lumber and OSB?

<A – Chris Virostek >: Yeah, I wouldn't have those necessarily to the decimal point off the top of my head, but I would say we haven't really made substantive changes to our capacity, which is in the AIF. They're on an annual basis. I think what we published in February is the current state of our capacity. And so, that capacity is pretty ratable over the four quarters. There's no big sort of seasonal changes there. So, I think when you take a look at our production in Q2 relative to those annual capacity numbers there, that's your best guide as to what our utilization rate was in Q2.

<Q – Ketan Mamtora >: Got it.

<A – Chris Virostek >: I mean, it's fair to say particularly in U.S. in lumber, we're well below kind of the capacity that we would prefer to – or well below the utilization that we would prefer to run at because we've been very diligent and thorough in terms of managing our schedules, controlling inventory and meeting demand in the marketplace.

<Q – Ketan Mamtora >: Yeah, That's helpful. Chris, just one last one from me and I'll turn it over. In the OSB business, what indicators – you talked about sort of having a flexible operating approach – what indicators that you all are looking at, whether it is demand, it is inventory or anything else that you would point us to in terms of sort of your approach to having that flexible operating schedule?

<A – Chris Virostek >: Yeah, I mean, I think we're looking at all those factors. As you know, the biggest driver of OSB consumption is new housing construction. So, we monitor the trends and developments in the new housing market pretty closely. We look at where that's trending in terms of starts and permits in both globally and across North America, but also regionally, in line with kind of where our productive capacity is and how that's shaking out. Our inventory levels that we can hold in OSB are pretty limited because it has to be stored inside.

So, we don't really build a lot of inventory and then sort of draw it down. So, we have to react pretty quick in OSB and we tend to do that. And we look at all those macro factors principally around interest rates, housing, and housing construction as indicators of how we need to be thinking about the ability to flex over the near term and medium term.

<Q – Ketan Mamtora >: Thank you very much. I'll jump back in the queue. Good luck.

<A – Chris Virostek >: Thanks.

<A – Sean P. McLaren >: Thank you.

OPERATOR

Thank you. And our next question is from Hamir Patel from CIBC Capital Markets. Your line is now open.

<Q – Hamir Patel >: Hi. Good morning. Sean, the European business has been kind of hovering around breakeven for the past two years. What do you need to do to fix that operation? And at what point would you consider putting that business up for sale and kind of focusing on what you do best in North America?

<A – Sean P. McLaren >: Yeah, good morning, Hamir. I would say Europe is largely the same challenges as North America from a macro perspective. End use demand has been difficult for some time. Saying that, our assets are well positioned. They operate well. We have an excellent team over there. We've got kind of good – strong relationships with our customers. We think we're really well positioned as Europe comes back. Again, that is really, I guess, the unknown part. Saying that, sequentially, we've seen some improvement in our OSB business over there. Still modest but moving in the right direction.

In terms of your other question, I think we're very pleased to have Europe as part of West Fraser. Again, we have to wait and see on the macro for Europe, but good assets, good people, well positioned in the cost structure. Things will get better in Europe and when they do, we're going to be in a good spot to participate in that. So, that's all I would say about Europe.

<Q – Hamir Patel >: Okay. Fair enough. Thanks, Sean. And I just want to follow-up on a potential quota framework for lumber. If we ever do end up with that as a solution, how would West Fraser like to see quotas allocated between the provinces? And then how would you like to see the provinces allocate quota to the companies?

<A – Sean McLaren >: That's a very detailed question there, Hamir. I'm really not going to comment on what any of those details are, or what I would speculate on, and what that may or may not be. What I would say is that the federal government, the Canadian industry, good alignment on being – inclusion of lumber, inclusion of wood products, open to discussion around what the framework and dialogue would be. I think the most important part in the immediate term is inclusion of wood products, inclusion of lumber and supporting the industry staying aligned and supporting our government and having open dialogues on what's best long term. All those other details are hypothetical and really we're just not in a position to comment on any of that.

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

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

OPERATOR

Thank you. And our next question is from Matthew McKellar from RBC Capital Markets. Your line is now open.

<Q – Matthew McKellar>: Hi. Good morning. Thanks for taking my questions. First for me, just like to ask, did you have a sense that we're seeing any pre-buying or inventory accumulation of SPF in the U.S. ahead of those higher duty rates taking effect? And if not, I guess, when do you really expect that to start?

<A – Sean McLaren >: Hi. Good morning, Matthew. I might turn this one over to Matt just to talk a little bit about current buying patterns.

<A – Matthew Tobin >: Good morning. I would say we haven't seen a noticeable change in customer purchasing patterns to-date. And generally, I think in uncertain economic outlooks, we generally don't see an increase in purchasing patterns.

<Q – Matthew McKellar >: Okay. Thanks. And I mean, do we need to see the final kind of results there for that accumulation to start to occur? Or in your minds, are we likely to see some buying in the market just kind of ramp-up here over the next couple of weeks? How are you thinking about how that plays out?

<A – Matthew Tobin >: I think hard to speculate how our customers will react to the new duties, but I would say they're really focused on having enough inventory to meet their demand and how to navigate the uncertainty ahead of them.

<Q – Matthew McKellar >: Okay. Thanks. That's very helpful. I'll turn it back.

OPERATOR

Thank you. [Operator Instructions] And your next question is from Sean Steuart from TD Cowen. Your line is now open.

<Q – Sean Steuart >: Thanks. Good morning, everyone. A couple of questions. Sean, I'll ask one more on the lumber trade stuff. I guess I'm just curious on, as this comes to a head seemingly in the short term and a lot of changes get made to potential terms in a short period of time, how is the federal government or the provinces corresponding directly with industry to get input along the way? Are you guys being consulted constantly to provide input on potential structure? I'm just more curious on the logistics of how the government involves industry in this.

<A – Sean McLaren >: Yeah, good morning, Sean. I think, frankly, for the past year, like a lengthy period of time, the industry has been collaborating. There's been a lot of discussion along the way with both federal and provincial governments. So, awareness of the current situation, aligned with the industry and that open dialogue, all of that pre-work has been done. And our relationships, the industry's relationships are open, they're collaborative, and the lines of communication are in place when the moment comes, when or if the moment comes for that discussion.

<Q – Sean Steuart >: Okay. Thank you for that. And then a question for Chris. Ongoing optimization of the wood products portfolio in North America this year will still be a busy CapEx year for you guys, but maybe less than we've seen the last few with Henderson wrapping up. Can you give perspective on the pipeline of discretionary CapEx projects you guys have in the hopper? And any constraints on contract or labor equipment availability? I'm just trying to get a sense of how things could trend into 2026 and beyond.

<A – Chris Virostek >: Yeah, thanks, Sean. I think as we've noted, we've had a lot of major projects underway here. And one of the things we've been proud of is our ability to position ourselves to invest counter-cyclically. To take the downtime, to do these capital projects in a weak market is the best time to do them from our perspective and to make investments when possibly others aren't is beneficial from the standpoint of being able to get access to contractors and equipment.

I think, anecdotally, we understand that contractor backlogs are shrinking, probably not unsurprising in the lumber environment that we've been in that there's just fewer projects going on and there's a little bit better availability there on some front. But what I would say is, I would say is this, right? Like as Sean's mentioned, there's a ton of uncertainty out there right now. We have, I think, probably a lot of great projects in the pipeline that we could do over the next several years.

Our focus in the near term is going to be on wrapping up the stuff that we have underway, operationalizing that, getting the benefits of that, continuing to work the cost position down through operationalizing those projects. And then probably in all likelihood, seeking a little bit of greater clarity about the macro conditions and the trade environment before making major decisions on the next – whatever those next round of projects would be for us. So, I think that's how I'd frame it up. Sean, I don't know if you want to add anything to that?

<A – Sean McLaren >: No, I think that was perfect, Chris. Thank you.

<Q – Sean Steuart >: Maybe just one follow-on. As we're in this extended trough for wood product markets, whether you guys are interested right now or not, can you speak to what the M&A opportunity set looks like for bolt-ons as more potential sellers come into the market as this trough has extended here?

<A – Chris Virostek >: I can…

<A – Sean McLaren >: Yeah.

<A – Chris Virostek >: Yes, go ahead, Sean.

<A – Sean McLaren >: That would be great – no, why don't you take that one, Chris?

<A – Chris Virostek >: Okay. Yeah. Sean, I think our track record in particular over the last several years has been that we're ready and able to be an acquirer of quality assets should those quality assets come available. And we've made fairly selective additions to the portfolio that in our view have made the portfolio better. I think tremendous amount of uncertainty out there right now in the marketplace. If that creates distress, does that create opportunities? That's a lot of speculation as to what that's going to mean. But what I would say is we've got the financial capacity to grow. I think we've got the ability to execute when those things happen. We've got a strong track record of integrating acquisitions, both large and small. We have the balance sheet to do things that that make sense, but it's all going to be through a lens of quality of things where it makes us better very quickly or there's a very clear path to strong synergies and improvement of the franchise on an overall basis. We're not looking to buy assets just because they're available.

<Q – Sean Steuart >: Got it. Okay. That's all I have for now. Thank you very much.

<A – Sean McLaren >: Thanks, Sean.

OPERATOR

Thank you. There are no further questions at this time. Please proceed.

SEAN P. MCLAREN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Jenny. 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

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect your lines.