**WEST FRASER**
**Q3 2022 EARNINGS CONFERENCE CALL**
**OCTOBER 27, 2022 – 11:30 A.M. ET**
**CORRECTED TRANSCRIPT**

**OPERATOR**

Good morning, ladies and gentlemen, and welcome to the West Fraser Q3 2022 Results Conference Call. At this time, all lines are in 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 2022 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'd like to remind everyone that today's call is being recorded, Thursday, October 27, 2022.

And I would now like to turn the conference over to Ray Ferris, President and Chief Executive Officer. Please go ahead, sir.

**RAYMOND FERRIS, CEO, PRESIDENT & CORPORATE DIRECTOR**

Thank you, Michelle, and good morning and thank you for everyone for joining our third quarter 2022 earnings call. As Michelle noted, I'm Ray Ferris, President and CEO of West Fraser and I am joining today's call from Greenville, South Carolina, which is home of West Fraser's Advanced Controls and Development Center. Joining me on the call from Greenville is Chris McIver, our Senior Vice President, Marketing and Corporate Development, along with a few other senior leaders. As well, joining us from Vancouver, British Columbia is our Senior VP and Chief Financial Officer, Chris Virostek.

If you'll humour me a bit, I'd like to take a few minutes to describe just what our team in Greenville does, and the role we expect them to play in support of our broader efforts of further improving our operational and cost performance as we continue our transformation into a leading global wood products company. For background, the Advanced Control Center was an initiative launched by the Norbord team in 2020 to support the 12 North American OSB facilities and best-in-class safety, operational performance, and the sharing of best practices.

Following the completion of the Norbord acquisition in February 2021, our platform has now grown to 13 OSB operations and specifically, 22 sawmills in the U.S. South. Although the Center will support other regions, we believe the critical mass we now have in the U.S. South is an important strategic advantage of scale upon which to execute and support technology transfer to more rapidly advance the highest safety, automation and operational efficiencies, which are key to further driving our low-cost strategy. To do this, it's important that we have the best people and processes in place, and that's where the Advanced Control Center comes in. From this Center, we have a team of engineers and control specialists that are wired into many of our operations to directly support our onsite teams.

At a high level, the Advanced Controls and Development Center's key objectives are to train, educate and develop our employees to deploy and utilize best-in-class automation and control skills; to share in real-time best practices on safety and operational excellence; and, to be an incubator in developing and implementing the latest automation, optimization and robotic technologies. Doing this should also result in a work environment that attracts and retains the most engaged and talented people for our company.

We are pleased with the energy and progress that our U.S. South leadership team have accomplished so far in this initiative. And we're excited about the opportunities ahead as we drive competitive advantages through people and technology to support our safe, low-cost, and highly efficient operating philosophy.

With that, I will now give a brief overview of key financial highlights of West Fraser's Q3 results and then pass the call to Chris Virostek for additional comments. In the third quarter, West Fraser saw a further improvement in transportation constraints that had challenged our financial results earlier this year, while concurrently we saw market demand weaken, with rising mortgage rates impacting near-term housing affordability.

Against this backdrop, we achieved solid financial results for the quarter, generating $426 million of adjusted EBITDA, representing a margin of 20% of sales. In terms of capital allocation, we invested nearly $150 million in capital equipment this quarter, while continuing our track record of returning significant capital to our shareholders by repurchasing $182 million of our shares and also paying out $27 million in quarterly dividends. The company has now repurchased approximately 39 million common shares through our normal course issuer bids and with the completion of two substantial issuer bids since early 2021, representing approximately 72% of the shares issued in respect of the Norbord acquisition.

Notwithstanding this return of capital and softening of market demand, our balance sheet continues to offer significant financial flexibility, which remains a key priority for us in our capital allocation strategy.

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

**CHRIS VIROSTEK, CHIEF FINANCIAL OFFICER**

Thank you, Ray. And a reminder that we report in U.S. dollars and all my references are to U.S. dollar amounts, unless otherwise indicated. Our North America EWP segment generated $215 million of adjusted EBITDA, down from $623 million in the prior quarter, while Lumber generated $160 million of adjusted EBITDA, a decline from $449 million in the prior quarter. Note that the Lumber segment benefited from an $81 million dollar duty recovery of the administrative review period three (“AR3”) export duties during the third quarter.

The Pulp & Paper segment generated $29 million of adjusted EBITDA, a significant improvement from recent quarters. Notwithstanding this progress, we continue to focus on long-term solutions to improve the Pulp segment, which includes our Unbleached Kraft Pulp (“UKP”) strategy.

In Europe, adjusted EBITDA was $24 million versus $54 million in the second quarter.

Price was the single largest driver for the sequential EBITDA change across our Lumber and Engineered Wood Products businesses in North America and Europe. Cash flow from operations in the third quarter was $433 million, while cash, net of debt, increased quarter-over-quarter to $789 million even as we repurchased $182 million of our common shares in the quarter.

I'll now shift to our 2022 operational outlook. While we did experience a notable improvement in transportation in the third quarter, particularly in Western Canada, we're reducing our annual SPF

Lumber guidance. We now expect SPF shipments to be modestly below the bottom end of the prior guidance range of 2.8 billion to 3.0 billion board feet, maintaining our guidance for SYP shipments, which we expect to fall within the range of 3.0 billion to 3.2 billion board feet this year. We're also reiterating our North American OSB annual shipments guidance of 5.9 billion to 6.2 billion square feet on a 3/8-inch basis. In Europe, we are seeing a continuation of the slowing demand we discussed last quarter, and as such, we now expect OSB shipments to be at the bottom end of the guidance range of 1.0 billion to 1.2 billion square feet on a 3/8-inch basis this year.

Lastly, given the rate of expenditures in the first three quarters of 2022 and because we now expect project spending to carry into 2023 for a number of our projects that are underway, we are tempering our 2022 capital expenditures guidance to be approximately $450 million as compared to the prior guidance range of $500 million to $600 million.

We continue to see weakening demand for a number of our products, particularly for those serving new home construction markets, as rising mortgage rates appear to be impacting affordability. And while we still see positive medium to longer term market supply and demand fundamentals for our key products, we are acutely aware of these near-term headwinds. Given this uncertainty, further changes to operating schedules across our production platform may be required to manage raw material supplies, inventory levels, transportation and our integrated fiber supply chain.

Consistent with recent quarters, across much of our supply chain, we continue to experience greater-than-usual inflationary cost pressures and availability constraints for labor, energy, and raw materials such as resins and chemicals and, to a lesser extent, transportation. We expect these cost pressures and availability constraints to remain elevated through the remainder of 2022 and into early 2023.

With that overview, I'll now turn the call back to Ray.

**RAYMOND FERRIS, CEO, PRESIDENT & CORPORATE DIRECTOR**

Thank you, Chris. I'll make a few comments about West Fraser's exposure to new home construction markets in the U.S. And as Chris mentioned, we certainly recognize the uncertainty surrounding rising interest rates and the potential impact that these and other factors may have on near-term housing affordability and the potential of short-term fluctuations in demand for our wood building products. However, it's important to note that while new home construction is a key market for our company, today's West Fraser is much more diverse and resilient than the West Fraser of the past, in part because of our deliberate actions that we've taken across the company.

Not only do we have exposure to different geographic markets today, but the relative mix of our demand drivers has changed over time, with significant growth coming from segments that are not as tied to new home construction. To this end, market exposure for our Lumber segment, as you can see on slide 8, that repair and remodeling markets have become much more significant drivers of industry lumber demand over the past 20 years. Comprising just one quarter of industry demand in 2000, those same repair and renovation markets now represent nearly 40% of North American lumber demand.

Similarly, on slide 9, it is clear that both repair and renovation and industrial markets are now much larger contributors to North American industry demand for OSB. Demand from these two end markets has increased substantially over the last 20 years, growing from just 22% to approximately 33% of total OSB demand over that period. What this industry data tells us is that while new home construction will continue to be a key driver of wood building products demand in North America, repair and renovation and industrial markets have become more significant drivers of overall demand for our products. Further, the repair and renovation and industrial end markets historically tend to have significantly less demand variability through the cycle than that of new home construction. We believe that this is important to note as it shows we are better positioned today to weather future cycles in the U.S. housing market.

I would now like to update you on the announcement yesterday that we will be undertaking a brownfield mill modernization of our Henderson, Texas lumber facility. Much as we did with Opelika and Dudley projects, we will continue to operate the existing mill as we construct a $255 million state-of-the-art lumber manufacturing complex at Henderson. Undertaking this type of brownfield project allows us to pursue our low-cost strategy while leveraging the current mill's existing ecosystem, including a skilled workforce, abundant fiber, close proximity to strong end-markets, and an existing outlet for our mill residuals, and of course, including, importantly, the local transportation infrastructure.

Construction will begin this fall and we expect to begin the mills ramp-up curve sometime in the second half of 2024. Once completed, the Henderson mill’s capacity will nearly double, and at full production, we estimate the mid-cycle EBITDA will increase by almost four times the current mid-cycle EBITDA.

In summary, while demand markets were challenging in the third quarter and we see near near-term headwinds impacting the business, we remain confident in the foundation we have in place. In addition to our geographic and product diversity, our balance sheet remains strong. We have the necessary liquidity to allow us to navigate current and future challenges and benefit from the opportunities that may arise.

Just as important, we have the people and the talent to continue to move the company forward and create value, whether organically or through acquisitions, if and when attractive M&A opportunities arise. Overall, we remain optimistic about the company's longer-term prospects as well as continued growth in the use of sustainable and renewable wood products.

With that, we'll turn the call back to the operator and ask for questions.

**OPERATOR**

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question will come from Sean Steuart of TD Securities. Please go ahead.

**<Q – Sean Steuart>:** Thank you. Good morning, everyone. Ray, a question on the Henderson project. The capacity multiple looks rich versus other recent new sawmill announcements. Can you reconcile the capacity multiple which looks like it's almost $934 per thousand board feet with the 12% IRR target? That IRR looks pretty similar to what you guys would have targeted for Dudley and Opelika, and I'm just wondering if you can reconcile that discrepancy for me.

**<A – Raymond Ferris>:** Well, good morning, Sean. And I'm going to – I think Chris and I will tag team on this one. Chris, do you want to maybe start with that and I'll tag on at the end.

**<A – Chris Virostek>:** Sure. Sean, I think there's been a number of announcements around there. I think and it also depends how not all mills are all sort of constructed equivalent. I would say what we've done here is build on what we've learned from Opelika and Dudley and what we've seen certainly with the tremendous success we've had in Angelina, which I think if you look at that as a reasonable comparison, that's fairly equivalent I think on a valuation standpoint there. Look, I think our view of mid-cycle has typically been, I think, a conservative one and we've typically tried to do better on these things around that. So, I don't know that we'll go into a bunch more specifics around kind of these assumptions, but I think it is – our approach to modeling this out has been consistent. I think in the case of the other brownfields, we've been quite pleased to exceed our expectations, but we've approached this one just as conservatively. Ray, anything you want to add to that?

**<A – Raymond Ferris>:** Yeah. I would just say, look, it's hard to – again, all things aren't created equal. And I would say, Sean, this – for West Fraser and how we look at our company and where our operations are and where we want to be, this is really a continuation of our East Texas and quite frankly part of our Arkansas strategy. And so, we understand the synergies that I think it brings for us. I would say – and it's an important piece for us. And I would also say is that we tend to be quite conservative. And so when we think of pricing and ramp-up schedules, our conservative nature comes up. Our expectations would be to do better in both. But it's a reflection of, I think, our nature in the company, but also to be strategic on what we do. It's not just a mill, it's a region and an approach that we have. So hopefully, that answers your question.

**<Q – Sean Steuart>:** Yeah, that helps. I appreciate that context. Second question, U.S. South log cost, you – in the MD&A, it was mentioned the inflation you've seen there. And I know it varies quite a bit from state to state and within states. But can you give us a sense overall of your average log costs in the South, how much they've increased on a percentage basis, either quarter-over-quarter or year-over-year and what you're seeing headed into the latter part of the year as well?

**<A – Raymond Ferris>:** I don't have a percentage in front of me. It probably wouldn't be meaningful anyway. What I would say is that certainly we've seen some regions go up much quicker. And whether that's weather and/or whether it's pulp or others, we've seen it, but – and certainly, we've seen a shift in a couple of regions to do that. But I think the industry data out there, Sean, would probably be the best place to source that one.

**<Q – Sean Steuart>:** Okay. That's all I have. Thanks very much, Ray.

**<A – Raymond Ferris>:** Thanks, Sean.

**OPERATOR**

Your next question will come from Hamir Patel of CIBC Capital Markets. Please go ahead.

**<Q – Hamir Patel>:** Hi. Good morning. Ray, your – some of the charts in the investor presentation show the company's view that North American lumber and OSB markets are kind of sized for 1.5 million U.S. housing starts. If 2023 ends up being a fair bit lower than that, do you think we'll see an acceleration of some of the permanent shuts that you might expect in B.C.? And how do you think about your own capacity base in the province going forward?

**<A – Raymond Ferris>:** Well, thanks, Hamir, and I'm really glad to see someone's looking at the charts. It'll make Robert Winslow quite happy. And so look, what I would say is that – I don't want to get region specific because I do think these things move around. But I would say we're going to operate to – in whatever region it is or product it is, we're going to operate to the economic logs, to the transportation we have available, and to what the customers want to purchase. And so I would say that can be different in every region, and look, B.C. has a high cost floor. We've made a lot of changes in B.C. But I would say our operating philosophy will be the same, which is we have to have economic logs, we have to have transportation that will accept the customers' orders and we have to have orders to do that. And we'll adjust as needed to meet either one of those factors.

**<Q – Hamir Patel>:** Okay. Thanks for that. That's helpful. And just turning over to Europe, not sure if you're able to quantify how OSB prices changed there in Q3 and any comments about what you might be seeing on the pricing front in Q4.

**<A – Raymond Ferris>:** I would say – it's hard to give a lot of color on that. I would say if I were to comment on something, certainly energy and fiber costs are issues throughout Europe as a general statement. Obviously, the market has cooled quite a bit. And so as far as the forecast on pricing, I mean, well, I guess, we'll have to see where it goes. But I like how our team is operating and managing our – both fiber and energy and adjusting to what the demand is. And so, from that perspective, I guess we'll see where pricing goes, but it's hard to have a lot of visibility in Europe.

**<Q – Hamir Patel>:** Yeah. Fair enough. Thanks, Ray. That's all I had. I'll get back in the queue.

**<A – Raymond Ferris>:** Thanks, Hamir.

**OPERATOR**

Your next question comes from Mark Wilde of BMO. Please go ahead.

**<Q – Mark Wilde>:** Good morning, Ray, Chris, and Chris. First question I had is, Ray, I wondered if you can just help us at all in how you're thinking about demand over the next few quarters. We know the builders have had a pretty healthy backlog that they're presumably working their way through now even as the buyer traffic drops off. How do you see demand playing out over the next few quarters based on what you know right now?

**<A - Raymond Ferris>:** Well, Mark – so Chris and Chris both don't think they're getting to answer enough questions. So I'm going to turn this one over to them.

**<A – Chris McIver>:** Good morning, Mark.

**<Q – Mark Wilde>:** Hi, Chris.

**<A – Chris McIver>:** That is a very difficult question to answer, quite frankly. But what we're seeing is that single family, as to nobody's surprise, is beginning to drop off. But repair and remodel is holding up very robustly both in panels and lumber. Where it goes from there, we really don't know.

**<Q – Mark Wilde>:** Yeah. And I guess what I'm just trying to get at, Chris, is that how much of a buffer this is creating in the short term just because the builders have a lot of backlog to work through, and how significant a drop-off we might see somewhere in the first half of next year.

**<A – Chris McIver>:** Yeah. Again, I mean, we really don't know, Mark. What I would say is that our inventory levels, both in panels and lumber, are very comfortable levels and we'll see what happens from here.

**<A - Raymond Ferris>:** Yeah. I mean – and Mark, just from my perspective, I mean, I think we all look at the same numbers as far as completions and starts. And I think in the near-term and I'll pick a number whether it's the next quarter or two, demand has been more resilient than what we've – than what I think some of the numbers would indicate. But saying that, I think the unknown is how much more will interest rates go up, how fast will they go up and at what pace and what elevation. And I think within that, it's really hard to predict what the impact will have, but there's certainly some buffer.

**<Q – Mark Wilde>:** Okay. Couple of other questions. One, you've been quite clear as you work down at Allendale, that you're going to start that up when you see the market being there for the product. I wonder how you're currently planning for that start-up at this point. In other words, are you like hiring and training workforce for the facility for kind of a late Q1 start-up, or is that on pause right now?

**<A – Raymond Ferris>:** Well, I'm going to give you two answers, Mark. One would be – one is that, look, we've made that investment based on what we think are very good long-term fundamentals. Starting up, and at any of our facilities, including in Allendale, these are long term that take two, three or more years to get to where we want. Any decisions that we make around those will be long-term in nature. And I would say, a general comment would be when we look across our portfolio, we're going to make sure – I mean, all we can do is, like I mentioned, is that – in which sector it is, is that we have to have the right log at the right price. We have to have a facility that has the right cost structure, we have to have a transportation that will support it, and we have to have customers willing to buy the product. And any one of those could be reasons why, across our portfolio, we may adjust our operating platform. So rather than speak specifically to Allendale, that'll be the – whether we start up in Q1 or at the end of Q1 as we planned, or whether we adjust based on – I think we're going to make sure that all the fundamentals are in place across our operating portfolio.

**<Q – Mark Wilde>:** Okay. All right. Last one for me. I'm just curious, Ray, if we look out over the next three to five years, we're seeing capacity shrink a lot out in B.C. We're seeing capacity grow a lot in the Southern U.S. Would you expect that we see a change in the relationship between Western grades of lumber and Southern grades over time?

**<A – Raymond Ferris>:** Can you be a bit more specific, Mark?

**<Q – Mark Wilde>:** Yeah. I'm just trying to – we have less SPF supply, it's clearly preferred for some markets. At the same time, we've got a lot more Southern pine capacity. It tends to go to somewhat different markets and has much lower cost. So I'm just trying to figure out whether the sort of the historical pricing relationship between those two grades is going to shift a bit – whether a rebound in Southern prices might be smaller, or whether you might see SPF prices rise to a newer and higher level on a trend basis.

**<A - Raymond Ferris>:** Thanks, Mark. I'm going to let Chris, here, take that one.

**<A – Chris McIver>:** Hey, Mark. What – you are correct in that typically you see slightly different end uses for both SYP and SPF. But there is a fair bit of overlap and we do see arbitrage on certain products and I'll give you an example. One, is truss manufacturers, they will go back and forth between SYP and SPF. And, I suspect over time, as there's more availability of SYP, it will begin to be used in more end uses. That's just what we're seeing. But it's pretty much anyone's guess as to where it ends up.

**<A - Raymond Ferris>:** One thing I might add, Mark, would be, I think we would agree with your thesis or have a view to support that thesis. I think one of the things that clouds that is that the supply chain has been very tight, and the supply chain out of Canada, with transportation challenges, it creates dynamics that's hard to unpack that question. I think we'll – I think over time, I think the thesis is good. What needs to be understood is that there is a very tight supply chain and transportation is a more critical issue today and going forward than it has been historically. So, we'll have to see how that plays out in the marketplace.

**<Q - Mark Wilde>:** Okay, I'll turn it over. Thanks, Ray.

**<A - Raymond Ferris>:** Thank you.

**OPERATOR**

[Operator Instructions] Your next question comes from Paul Quinn at RBC Capital Markets. Please go ahead.

**<Q - Paul Quinn>:** Yeah. Thanks very much. Good morning, guys.

**<A - Raymond Ferris>:** Good morning, Paul.

**<Q - Paul Quinn>:** Hey. Just wondering if you've noticed the effect of the Russian wood products export ban, I think that came in early July and whether you've noticed that in tightening up Europe slightly, despite the weakening economy, as well as North America.

**<A - Raymond Ferris>:** Well, look, Paul, we did expect to see something and particularly as we get into August. That's been very difficult to see with things that are going on in Europe. I do think that we will see that impact. I think our view would be it has to have an impact on Europe. It certainly had an impact on fiber costs in certain regions and – but less so on overall demand. But I think in a couple of quarters, we're going to have more visibility on – I think the industry will have more visibility on exactly what the impact of those sanctions have been.

**<Q - Paul Quinn>:** Okay. And then you guys signalled that or highlighted that resin costs are up year-over-year, I guess that's with energy. Just what's the percentage change in resin costs, and is it comparable between North America and Europe?

**<A - Raymond Ferris>:** Yeah. That's a pretty – it's hard to draw a line to those. So energy costs have gone – spiked certainly more in Europe than we've seen generally in North America. But look, there's – it's very regional and it's hard to generalize both, and it's country- and region-specific. So I can make the same discussion in North America, is that you'll see regional dislocation that may or may not get correct. And it does move around. I think these past few quarters has been an example of that – it is moving around. And we would expect it to move around further over the next few quarters.

**<Q - Paul Quinn>:** Okay. And then just lastly, I mean, with slowing North American housing market here and just wondering what your ability is to pivot to export markets with either lumber or North American panels.

**<A – Chris McIver>:** Hey, Paul. It's Chris. I'll give that one a try. I would say that all of our offshore markets have been slower than historical for sure, including Japan. And China in particular, it's been very challenging and kind of for three reasons. We believe there's a fair bit of Russian and European lumber that's being exported there for the same reason. Their markets have slowed, obviously in Russia for sure. We've seen a depressed construction market in China, and then there are geopolitical concerns as well. Market access has been a problem from Canada. So the export markets have been tough, and we expect them to continue to be tough.

**<Q - Paul Quinn>:** All right. That's all I had. Best of luck, guys. Thanks.

**<A - Raymond Ferris>:** Thanks, Paul

**OPERATOR**

[Operator Instructions] Your next question comes from Mark Wilde of BMO. Please go ahead.

**<Q – Mark Wilde>:** Yeah. Just two quick follow-ups. First, I'm just curious, down in Henderson, that $255 million number, is that net of any kind of incentives that you may be picking up from either kind of local or state government? I know sometimes with some of the new projects that have been announced in the industry, I think there are some fairly significant incentives that affect the capital costs.

**<A – Chris Virostek>:** Yeah. I mean, the local community has been very supportive of us there, but that $255 million is the total capital cost.

**<Q – Mark Wilde>:** Okay. All right. And then Ray, just one other one. Any progress on the trade issue as markets get tougher? Because it really seems like it's been quite quiet over the last few years, and I just wonder if the prospects of more challenging markets are bringing people back to the table at all.

**<A - Raymond Ferris>:** Well, I think it's a great question, Mark. And I think the answer is simple, that there's really nothing going to happen until we get through the midterm elections. So there really isn't anything going on today. But I would say historically, you need to get beyond the midterm elections. And I guess if there was an opportunity for whatever the factors are that might create a catalyst to have discussions, my guess or opinion would be sometime later next year.

**<Q – Mark Wilde>:** Okay. All right. Sounds good. Thanks, Ray.

**<A - Raymond Ferris>:** Yeah. Thanks, Mark.

**OPERATOR**

At this time, there are no further questions on the phone lines. So, I will turn the conference back to Mr. Ray Ferris for any closing remarks.

**<A - Raymond Ferris>:** Well, listen, thank you Michelle, and very much appreciate everybody's time on the call. It's always Chris and myself, but really Chris and Robert, who is our Director of Investor Relations, are available to follow up on other questions. Thank you for your participation, and we look forward to talking in Q4. Thank you. Bye now.

**OPERATOR**

Ladies and gentlemen, this does conclude your conference call for today. We would like to thank everyone for their participation, and you may now disconnect your lines.