October 26, 2005 17:09 ET

Stella-Jones Increases Earnings by 79% in Q3

WESTMOUNT, QUEBEC--(CCNMatthews - Oct. 26, 2005) - Stella-Jones Inc. (TSX:SJ)

- Sales grow 20% to $42.8 million
- Gross margins improve to 21.6% of sales
- Net earnings increase 79% to $3.5 million, or $0.34 per share
- Sustained growth in core market segments

Stella-Jones Inc. today announced strong third quarter results for the period ended September 30, 2005. The Company posted solid gains in revenue, gross margins and net earnings as a result of robust sales in the utility pole and railway tie markets, revenue from the Company's recently-acquired railway tie treating facility in Bangor, Wisconsin and operational initiatives to improve efficiencies.

Sales for the third quarter ended September 30, 2005 totaled $42.8 million, an increase of $7.1 million, or 19.9%, over last year's third quarter sales of $35.7 million. Net earnings were $3.5 million, or $0.34 per share, compared to $2.0 million, or $0.20 per share, for the corresponding period last year. Nine-month increases have been equally strong, with sales growing 16.9% to $119.8 million from $102.5 million and net earnings increasing to $9.2 million, or $0.89 per share, from $6.0 million, or $0.60 per share, compared to the first nine months of 2004. Results for the quarter and nine months ended September 30, 2005 include one month of revenue from the Company's recently acquired plant in Wisconsin.

Continued buoyancy in the domestic pole and railway ties markets, along with growth in industrial treated wood, were responsible for a majority of the third quarter sales increase. Sales of all other product categories, with the exception of overseas export poles and consumer lumber, are also ahead of the corresponding period in 2004. The reduction in overseas export pole sales is in line with the Company's strategic decision to concentrate on servicing its higher-margined North American markets. The decline in consumer lumber sales is partly attributable to the slow start of the summer renovation period in Eastern Canada and delays in the openings of new retail outlets.

"Our performance in the third quarter maintains the momentum of the last few quarters and clearly demonstrates the strong growth potential of our core industrial markets," said Brian McManus, President and CEO of Stella-Jones Inc. "The sustained level of opportunities arising from the railway and utilities sectors, our strong sales backlog and the efficient cost structure of our plant network bode well for our continued growth going forward."

Gross margin increased in the third quarter to 21.6% of sales, up from 17.7% in the same period last year. For the first nine months of the year, gross margins represented 20.2% of sales, versus 18.2% for the same period in 2004.

"The operational efficiencies we have achieved by containing our manufacturing overhead costs and maximizing plant specialization have contributed significantly to our improved gross margins," said George Labelle, Senior Vice-President and Chief Financial Officer. "In addition, we are benefiting from higher average selling prices and economies of scale related to the increased overall volume in our core markets."

Selling and administrative expenses increased by $600,000 in the third quarter to $2.4 million compared to the same quarter in 2004. Total selling and administrative expenses now stand at $6.6 million for the year-to-date, up from $5.5 million in the corresponding nine-month period last year.

"The increase in expenses, both for the quarter and the year-to-date, are related to the additional provision for the employee profit-sharing pool, selling and administrative expenses related to the new Bangor plant and one-time expenses related to the final year of Environment Canada's TRD compliance program," explained Mr. Labelle.

As previously announced, in 2005 the Company is absorbing a higher amount of environmental expenses related to the audits of seven Stella-Jones treating plants by Environment Canada. In 2000, baseline assessments were carried out on all wood preserving plants in Canada by environmental consultants on behalf of Environment Canada. The Company submitted plans of action to respond to all recommendations.

Q3 HIGHLIGHTS

- On August 31, Stella-Jones announced it had completed the acquisition of Webster Wood Preserving Company, a privately held producer and marketer of pressure-treated wood railway ties based in Bangor, Wisconsin, USA. This acquisition is accretive to Stella-Jones' earnings, establishes the Company's first manufacturing facility in the United States and provides greater access to the U.S. treated crosstie market.

- On August 9, Stella-Jones announced that a semi-annual dividend of $0.05 per share has been declared on the outstanding Common Shares of the Corporation, payable on October 14, 2005 to shareholders of record at the close of business on September 9, 2005.
- On July 29, the Company announced it had entered into a subscription agreement with its majority shareholder, Stella Jones International S.A., for a proposed private equity placement consisting of the issuance of 555,556 common shares of the Company at a price of $9.00 per common share. Proceeds of the private placement, approximately $5 million CDN, were utilized to partially finance the Webster acquisition.

OUTLOOK

"We are encouraged by the sustained growth in the domestic utility poles, railway ties and industrial treated wood sectors, which are our core markets," said Mr. McManus. "We have a strong base of contracted sales booked for next year and we feel that our plant network and efficient cost structure will enable us to compete for additional business across these key market sectors. The integration of our new railway tie treating plant in Wisconsin is proceeding smoothly, and even at this early stage, we see further opportunities to profitably grow their U.S. market share. We also expect growth in our consumer lumber treating services as the home renovation market expands and we begin to service new retail outlets from our Delson, Quebec and Guelph, Ontario plants. In addition, synergistic acquisitions in our core businesses continue to be a cornerstone of our growth strategy and we will actively consider additional acquisitions that meet our investment criteria," concluded Mr. McManus.

ABOUT STELLA-JONES

Stella-Jones Inc. (TSX:SJ) is a leading North American producer and marketer of industrial treated wood products, specializing in the production of pressure treated railway ties as well as wood poles supplied to electrical utilities and telecommunications companies. Other principal products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. The Company also specializes in providing customized services to lumber companies and wholesalers for the treatment of consumer lumber products for outdoor applications. The Company's common shares are listed on the Toronto Stock Exchange.

Visit our website: www.stella-jones.com

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Company's products and services, the impact of price pressures exerted by competitors, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

NOTICE

The interim unaudited consolidated financial statements of Stella-Jones Inc. for the third quarter ended September 30, 2005 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle
Senior Vice-President and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS

as at September 30, 2005 September 30, December 31,

and December 31, 2004	2005	2004
	($)	($)
	unaudited	
ASSETS		
CURRENT ASSETS		
Accounts receivable	25,151,676	13,205,649
Inventories	72,567,627	52,769,898
Prepaid expenses	389,831	857,582
Future income taxes	517,000	522,000
	98,626,134	67,355,129
PROPERTY, PLANT AND EQUIPMENT	36,534,357	30,543,495
NOTE RECEIVABLE	872,025	---
FUTURE INCOME TAXES	326,000	301,000
	136,358,516	98,199,624

LIABILITIES

CURRENT LIABILITIES		
Bank indebtedness	25,379,409	11,420,760
Accounts payable and accrued liabilities	19,697,262	13,878,043
Income taxes	1,534,414	1,774,917
Current portion of long-term debt	4,717,786	3,699,048
	51,328,871	30,772,768
LONG-TERM DEBT	16,304,038	12,485,436
FUTURE INCOME TAXES	4,658,000	4,784,000
EMPLOYEE FUTURE BENEFITS	977,380	872,380
	73,268,289	48,914,584
SHAREHOLDERS' EQUITY		
CAPITAL STOCK	26,115,894	20,954,892
RETAINED EARNINGS	36,974,333	28,330,148
	63,090,227	49,285,040
	136,358,516	98,199,624

See accompanying Notes

CONSOLIDATED STATEMENTS OF EARNINGS
unaudited

	three months ended Sept. 30, 2005 ($)	three months ended Sept. 30, 2004 ($)	nine months ended Sept. 30, 2005 ($)	nine months ended Sept. 30, 2004 ($)
SALES	42,845,299	35,677,098	119,765,278	102,517,881
EXPENSES				
Cost of sales	33,585,407	29,375,007	95,546,509	83,900,871
Selling and administrative	2,389,127	1,846,358	6,639,651	5,471,008
Foreign exchange loss	206,027	252,117	151,198	214,316
Amortization of property, plant and equipment	846,421	725,288	2,403,872	2,234,900
	37,026,982	32,198,770	104,741,230	91,821,095

OPERATING EARNINGS	5,818,317	3,478,328	15,024,048	10,696,786
INTEREST ON LONG-TERM DEBT	264,961	235,415	680,160	715,228
OTHER INTEREST	244,271	167,941	623,274	586,002
EARNINGS BEFORE INCOME TAXES	5,309,085	3,074,972	13,720,614	9,395,556
PROVISION FOR INCOME TAXES	1,788,311	1,109,000	4,564,311	3,383,000
NET EARNINGS FOR THE PERIOD	3,520,774	1,965,972	9,156,303	6,012,556
NET EARNINGS PER COMMON SHARE	0.34	0.20	0.89	0.60
DILUTED NET EARNINGS PER COMMON SHARE	0.32	0.18	0.86	0.58

See accompanying Notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

for the nine months ended Sept. 30, 2005 and 2004	2005 ($)	2004 ($)
BALANCE - BEGINNING OF YEAR	28,330,148	21,846,564
Net earnings for the period	9,156,303	6,012,556
Dividends on common shares	(512,118)	(400,820)
BALANCE - END OF PERIOD	36,974,333	27,458,300

See accompanying Notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
unaudited

	three months ended Sept. 30,		nine months ended Sept. 30,	
	2005	2004	2005	2004
	($)	($)	($)	

($)				
CASH FLOWS FROM Operating activities				
Net earnings for the period	3,520,774	1,965,972	9,156,303	6,012,556
Adjustments for				
Amortization of property, plant and equipment	846,421	725,288	2,403,872	2,234,900
Write down of property, plant and equipment	---	---	---	273,956
Loss (gain) on disposal of property, plant and equipment	2,961	(33,000)	32,081	(393,384)
Employee future benefits	30,000	18,750	105,000	56,250
Stock-based compensation	4,350	4,311	13,000	12,932
Future income taxes	(9,000)	230,000	(146,000)	490,000
	4,395,506	2,911,321	11,564,256	8,687,210
Change in non-cash working capital components				
Decrease (increase) in Accounts receivable	2,315,951	2,445,934	(9,239,324)	(7,084,811)

Inventories	(5,209,271)	3,061,374	(6,244,032)	14,435
Prepaid expenses	273,962	442,799	476,200	117,777
Increase (decrease) in Accounts payable and accrued liabilities	(457,591)	(1,021,953)	4,879,416	1,820,054
Income taxes	507,274	928,822	(240,503)	1,913,271
	(2,569,675)	5,856,976	(10,368,243)	(3,219,274)
	1,825,831	8,768,297	1,196,013	5,467,936
Financing Activities				
(Decrease) increase in bank indebtedness	8,070,095	(7,704,362)	13,958,649	(5,388,564)
Increase in long-term debt	6,150,995	---	6,165,995	4,759,889
Repayment of long-term debt	(868,253)	(718,383)	(2,801,309)	(1,681,107)
Dividends	---	---	(512,118)	(400,820)
Proceeds from issuance of common shares	5,057,028	293,947	5,148,003	335,378
	18,409,865	(8,128,798)	21,959,220	(2,375,224)
Investing activities				
Business acquisition	(16,960,441)	---	(16,960,441)	

				(1,906,652)
Purchase of property, plant and equipment	(2,509,532)	(691,080)	(5,529,069)	(1,598,025)
Purchase of note receivable	(872,025)	---	(872,025)	---
Proceeds from disposal of property, plant and equipment	106,302	51,581	206,302	411,965
	(20,235,696)	(639,499)	(23,155,233)	(3,092,712)
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	---	---	---	---
CASH AND CASH EQUIVALENTS - BEGINNING AND END OF THE PERIOD	---	---	---	---
SUPPLEMENTAL DISCLOSURE				
Interest paid	518,963	434,658	1,203,242	1,231,366
Income taxes paid	976,364	(86,616)	4,629,641	942,934

See accompanying Notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

unaudited

NOTE 1 - Accounting Policies

These unaudited interim consolidated financial statements have been prepared following the same accounting policies as the December 31, 2004 audited consolidated financial statements. These unaudited interim consolidated financial statements and notes should be read in conjunction with the Company's latest annual consolidated financial statements.

NOTE 2 - Employee Future Benefits

For the three months ended September 30, 2005, the benefit cost recognized for employee future benefits was $34,546 (2004 - $21,732). For the nine months ended September 30, 2005, the benefit cost recognized for employee future benefits was $117,961 (2004 - $66,043).

NOTE 3- Business Acquisition

On August 31, 2005, the Company's wholly owned U.S. subsidiary, Stella-Jones Corporation, acquired the assets of Webster Wood Preserving Company, a Minnesota Limited Partnership ("Webster"). Webster was a privately held producer and marketer of pressure treated wood railway ties based in Bangor, Wisconsin, U.S.A. Assets acquired include the Webster production plant in Bangor, Wisconsin, as well as all related inventories and accounts receivables. The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on management's estimate of their fair value as of the acquisition date. The results of operations of the Bangor plant have been included in the consolidated financial statements from the acquisition date.

Stella-Jones Corporation is considered a self-sustaining foreign operation and the assets and liabilities will be translated into Canadian dollars at the period-end exchange rate. Revenue and expenses will be translated at the weighted average exchange rate for the period. Unrealized gains and losses on the net investment will be deferred and included in cumulative foreign currency adjustments in shareholders' equity. As at September 30, 2005, as there was no material change in the net investment since August 31, 2005, the date of acquisition, no adjustment was recorded in this period.

The following is a summary of the net assets acquired at fair values:

	$
Assets acquired	
Current assets	16,268,850
Property, plant and equipment	3,106,604
	19,375,454
Liabilities assumed	
Current liabilities	395,425
Long-term debt	1,475,209
	1,870,634
	17,504,820
Consideration	
Cash, including transaction costs of $769,522	17,504,820

Financing for the transaction was provided by a $5.0 million private equity placement with the Company's majority shareholder, Stella Jones International S.A., at a price of $9.00 per common share, $4.0 million in new term loans arranged with the Company's Canadian bankers, and a $1.3 million (US$1.1 million) term loan with Stella-Jones Corporation's U.S. banker. The balance of the purchase price was financed by the Company's existing demand operating loan in Canada, with ongoing working capital financing for the U.S. operations provided by a new operating line of credit of $11.6 million (US$10.0 million) with Stella-Jones Corporation's U.S. banker.

NOTE 4- Share Information

As at October 25, 2005, the capital stock issued and outstanding consisted of 10,834,999 common shares (10,234,639 as at December 31, 2004).

NOTE 5- Seasonality

The Company's domestic operations follow a seasonal pattern, with pole, tie and industrial lumber shipments strongest in the second quarter to provide industrial end users with product for their summer maintenance projects. Consumer lumber treatment sales also follow the same seasonal pattern. Inventory levels of railway ties and utility poles are typically highest in the first quarter in advance of the summer shipping season. The first, third and fourth quarters usually generate similar sales.

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