



Source: Stella-Jones Inc.

Contacts: **Silvana Travaglini, CPA, CA**
Senior Vice-President and Chief Financial Officer
Stella-Jones
Tel.: (514) 940-8660
stravaglini@stella-jones.com

Pierre Boucher, CPA, CMA
Jennifer McCaughey, CFA
MaisonBrison Communications
Tel.: (514) 731-0000
pierre@maisonbrison.com
jennifer@maisonbrison.com

STELLA-JONES REPORTS FOURTH QUARTER AND 2019 RESULTS

19th consecutive year of sales growth

- **EBITDA for 2019 up 28.0% to \$312.9 million**
- **Net income increased 18.5% to \$163.1 million for the year**
- **Share repurchases of 1.8 million totaling \$70.6 million in 2019**
- **Solid financial position with a long-term debt to EBITDA ratio of 1.9x**
- **Quarterly cash dividend increased 7.1% to \$0.15 per share**

Montreal, Quebec – March 11, 2020 - Stella-Jones Inc. (TSX: SJ) (“Stella-Jones” or the “Company”) today announced financial results for its fourth quarter and fiscal year ended December 31, 2019.

“We concluded 2019 on a positive note with growth in both sales and profitability for the quarter and the full year. Sales were up 1.6% in the fourth quarter and 2.1% for the year to \$2.2 billion, delivering the nineteenth consecutive year of growth. Higher sales drove improvement in EBITDA, which grew 28.0% to \$312.9 million, yielding an EBITDA margin of 14.4% for 2019. During the year, we continued to foster a balanced capital allocation approach focused on growth and returns. We deployed our solid liquidity to invest in our network, acquire a key residential lumber facility and return capital to shareholders. In line with this strategy, today we are pleased to announce a dividend increase for the sixteenth consecutive year,” stated Éric Vachon, President and CEO of Stella-Jones. “Our solid financial position provides us the flexibility to continue to pursue our growth strategy and deliver further value to shareholders.”

Financial Highlights (in millions of Canadian dollars, except per share data and margin)	Q4-19	Q4-18⁽²⁾	Fiscal 2019	Fiscal 2018⁽²⁾
Sales	439.9	432.8	2,169.0	2,123.9
EBITDA ⁽¹⁾	58.8	41.8	312.9	244.4
EBITDA margin (%) ⁽¹⁾	13.4%	9.7%	14.4%	11.5%
Operating income ⁽¹⁾	41.4	31.8	242.3	206.3
Net income for the period	27.7	20.6	163.1	137.6
Per share – basic and diluted (\$)	0.41	0.30	2.37	1.98
Weighted average shares outstanding (basic, in ‘000s)	67,898	69,358	68,761	69,352

(1) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers.

(2) Results for 2018 were not restated as permitted by IFRS 16.

2019 RESULTS

On January 1, 2019, the Company retrospectively adopted IFRS 16, Leases (“IFRS 16”), but has not restated comparative periods, as permitted under the specific transitional provisions in the standard. The application of this new standard resulted in the addition of right-of-use assets and lease liabilities to the consolidated statement of financial position. Starting on January 1, 2019, instead of lease expenses, right-of-use asset depreciation and financing costs related to lease liabilities are recorded in the consolidated statements of income. Please refer to the impact of new accounting pronouncements and interpretation section of the Company’s Management’s Discussion and Analysis for further details.

Sales rose to \$2,169.0 million, up \$45.1 million compared to the previous year. Excluding the contribution from 2018 acquisitions of \$11.6 million and the positive impact of the currency conversion of \$41.9 million, sales decreased by \$8.4 million, or 0.4%, in 2019. Higher pricing for utility poles and railway ties, and the increase in volumes for industrial products were more than offset by the lower residential lumber and logs and lumber sales, and the decrease in shipments for railway ties.

- **Utility poles (35.9% of 2019 sales):** Sales increased to \$779.2 million in 2019, a 7.5% improvement over the prior year. Excluding the contribution from 2018 acquisitions of \$0.5 million and the currency conversion effect of \$17.3 million, utility pole sales rose by \$36.4 million, or 5.0%, primarily driven by increased sales price. Volume increases in the U.S. Southeast and overall healthy replacement demand, were largely offset by lower transmission pole volumes, given more project-related demand in 2018.
- **Railway ties (31.3% of 2019 sales):** Sales improved by \$15.8 million to \$678.2 million, compared to sales of \$662.4 million in 2018. Excluding the currency conversion effect of \$16.2 million, railway tie sales remained unchanged as higher selling prices for Class 1 and non-Class 1 customers compensated for the decrease in sales volumes. While demand for railway ties remained strong, the tight supply market for untreated ties required the Company to treat ties that were not air seasoned. The resulting longer treating cycle times, as well as the reduction in the maintenance program of a Class 1 customer unfavourably impacted sales volumes in 2019.
- **Residential lumber (21.7% of 2019 sales):** Sales totalled \$471.6 million, down by 0.6% compared to sales of \$474.4 million last year. Excluding the contribution from 2018 acquisitions of \$7.3 million and the currency conversion effect of \$4.5 million, residential lumber sales declined by \$14.6 million. The decrease was primarily attributable to a reduction in sales price, resulting from lower cost of lumber. The decrease was partially offset by higher volumes.
- **Industrial products (5.9% of 2019 sales):** Sales rose to \$128.2 million, compared to \$109.2 million in the prior year. Excluding the contribution from 2018 acquisitions of \$3.8 million and the currency conversion effect of \$2.9 million, sales increased \$12.3 million, or 11.3%, primarily as a result of stronger rail-related and piling product sales.
- **Logs and lumber (5.2% of 2019 sales):** Sales totalled \$111.8 million, compared to \$152.9 million last year. Excluding the currency conversion effect of \$1.0 million, sales for this product category decreased by \$42.1 million, or 27.5%, reflecting a decrease in selling prices driven by a decline in lumber market costs as well as lower volumes due to the timing of harvesting activities.

Operating income was \$242.3 million, or 11.2% of sales, compared to \$206.3 million, or 9.7% of sales, last year. The improvement was primarily attributable to higher selling prices for utility poles and railway ties, which largely offset the lower volumes in our two core product categories and the higher production costs for railway ties. Operating income in 2019 also benefitted from a reduction in the mark-to-market losses related to diesel and petroleum derivative commodity contracts recorded in “Other losses (gains), net”.

EBITDA grew to \$312.9 million, up 28.0%, compared to \$244.4 million reported in 2018, reflecting an EBITDA margin of 14.4%. The increase was mainly driven by stronger pricing and the positive impact of the adoption of IFRS 16. Excluding the effect of IFRS 16, EBITDA increased by \$36.5 million or 14.9%, representing a 12.9% margin, compared to 11.5% in 2018.

Led by the strong growth in operating income, net income increased 18.5% to \$163.1 million, or \$2.37 per diluted share, compared to net income of \$137.6 million, or \$1.98 per share, last year. Earnings per share was positively impacted by the repurchase of shares through the Company's normal course issuer bid.

FOURTH QUARTER RESULTS

Sales generated in the fourth quarter of 2019 amounted to \$439.9 million, compared to sales of \$432.8 million for the same period in 2018. Excluding the \$2.7 million conversion effect from the fluctuation in the value of the U.S. dollar, sales increased by \$4.4 million.

- **Utility poles:** Sales were \$190.9 million, down slightly from sales of \$192.0 million recorded in the fourth quarter of 2018. Excluding the currency conversion effect, sales decreased 1.5% as higher pricing was more than offset by lower volumes, largely due to more transmission pole projects in the prior year quarter.
- **Railway ties:** Sales increased to \$131.3 million, up 3.4% compared to \$127.0 million last year. Excluding the currency conversion effect, railway tie sales rose 3.1%, driven by price increases, partially offset by lower non-Class 1 volumes.
- **Residential lumber:** Sales totalled \$61.1 million, relatively unchanged from \$60.3 million generated in the fourth quarter last year. Higher sales volumes were largely offset by lower lumber prices.
- **Industrial products:** Sales amounted to \$26.3 million, up \$3.2 million compared to the \$23.1 million generated in the year-ago period. Excluding the currency conversion effect, sales increased 13.0% as a result of stronger volumes from rail-related products.
- **Logs and lumber:** Sales of \$30.3 million in the fourth quarter were relatively unchanged when compared to the same period last year.

Operating income rose to \$41.4 million, or 9.4% of sales, compared to \$31.8 million, or 7.4% of sales, in the same period last year. In the fourth quarter of 2019, operating income benefitted from improved pricing and a decrease in the mark-to market losses related to diesel and petroleum derivative commodity contracts. These factors were partially offset by lower utility pole volumes and higher production costs, mainly for railway ties. Compared to the prior year quarter, EBITDA improved by \$17.0 million.

Net income was up 26.0% to \$27.7 million, or \$0.41 per diluted share, compared to \$20.6 million, or \$0.30 per share, in the prior year.

STRONG LIQUIDITY AND CAPITAL RESOURCES

The Company generated \$89.9 million of cash from operations in 2019, despite the significant increase in untreated wood inventory given the improved availability of untreated ties and the anticipated sales growth in 2020. Together with additional borrowings under the syndicated credit facilities of \$126.0 million, the Company deployed its liquidity to invest \$65.8 million in capital expenditures, including the acquisition of the assets of Shelburne Wood Protection Ltd, as well as to repurchase shares totaling \$70.6 million and pay dividends of \$38.5 million. As at December 31, 2019, the Company's long-term debt stood at \$604.9 million and the long-term debt to EBITDA remained low at 1.9x.

NORMAL COURSE ISSUER BID (“NCIB”)

In 2019, the total number of common shares repurchased for cancellation under the 2018-2019 NCIB, which expired on December 20, 2019, amounted to 1,836,250 shares, at an average price of \$38.47 per share, for total consideration of \$70.6 million.

QUARTERLY DIVIDEND INCREASED 7.1% TO \$0.15 PER SHARE

On March 10, 2020, the Board of Directors declared a quarterly dividend of \$0.15 per share, representing an increase of 7.1% over the previous quarterly dividend, on the outstanding common shares of the Company, payable on April 24, 2020 to shareholders of record at the close of business on April 3, 2020. This dividend is designated to be an eligible dividend.

PENTACHLOROPHENOL UPDATE

The Company confirmed that it has ceased taking active steps to produce Pentachlorophenol and intends to continue working with its customers to offer a variety of preservative solutions for utility pole wood treatment.

OUTLOOK

Based on the assumptions that current market and economic conditions stabilize and foreign exchange rates and raw material prices remain comparable to those of the prior year, the Company expects higher year-over-year overall sales, driven by increased market reach in the utility pole, railway tie and residential lumber product categories. Sales growth is expected to support an improvement in operating margins. As a result, notwithstanding any additional acquisitions, EBITDA in 2020 is forecasted to be in the range of \$320.0 million to \$345.0 million, compared to \$312.9 million in 2019. For additional details per product category, please refer to the Company’s Management’s Discussion and Analysis.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on March 11, 2020, at 10:00 AM Eastern Time. Interested parties can join the call by dialing 1-647-788-4922 (Toronto or overseas) or 1-877-223-4471 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-585-8367 and entering the passcode 6270426. This recording will be available on Wednesday, March 11, 2020 as of 1:30 PM Eastern Time until 11:59 PM Eastern Time on Wednesday, March 18, 2020.

NON-IFRS FINANCIAL MEASURES

EBITDA (operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets), operating income and operating margins are financial measures not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers these non-IFRS measures to be useful information to assist knowledgeable investors understand the Company’s operating results, financial condition and cash flows as they provide an additional measure about its performance. Please refer to the non-IFRS financial measures described in the Management’s Discussion and Analysis.

ABOUT STELLA-JONES

Stella-Jones Inc. (TSX: SJ) is a leading producer and marketer of pressure treated wood products. The Company supplies North America’s railroad operators with railway ties and timbers, and the continent’s electrical utilities and telecommunication companies with utility poles. Stella-Jones also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products for construction and marine applications. The Company’s common shares are listed on the Toronto Stock Exchange.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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, the ability of the Company to raise the capital required for acquisitions, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

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Note to readers: The audited consolidated financial statements for the year ended December 31, 2019 and the condensed interim unaudited consolidated financial statements for the fourth quarter ended December 31, 2019 as well as management's discussion and analysis are available on Stella-Jones' website at www.stella-jones.com.

HEAD OFFICE 3100 de la Côte-Vertu Blvd., Suite 300 Saint-Laurent, Québec H4R 2J8 Tel.: (514) 934-8666 Fax: (514) 934-5327	EXCHANGE LISTINGS The Toronto Stock Exchange Stock Symbol: SJ TRANSFER AGENT AND REGISTRAR Computershare Investor Services Inc.	INVESTOR RELATIONS Silvana Travaglini Senior Vice-President and Chief Financial Officer Tel.: (514) 940-8660 Fax: (514) 934-5327 stravaglini@stella-jones.com
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