



# BUILDING ON OUR STRENGTHS

## INVESTOR PRESENTATION

March 2020

# FORWARD-LOOKING STATEMENTS

*This presentation contains certain statements that are forward-looking, including comments with respect to the Company's objectives, strategies, targets and expectations. The reader is cautioned not to place undue reliance on these statements since a number of known and unknown risks and uncertainties may cause actual results to be materially different from those expressed or implied by such forward-looking statements. Such risks include: economic conditions; dependence on major customers; availability and cost of raw materials; environmental risk; risks related to acquisitions; litigation risk; insurance coverage risk; currency risk; interest rate fluctuation risk; availability of credit risk; customers' credit risk; cyber risk; corporate tax risk; enterprise resource planning implementation risk; coronavirus risk and other factors referred to herein and in the Company's annual information form, and other public documents filed with the Canadian Securities Regulatory Authorities (available on SEDAR at [www.sedar.com](http://www.sedar.com)).*

*All figures are in Canadian dollars unless otherwise stated.*

# NON-IFRS MEASURES

*Gross profit, operating income, operating income before depreciation and amortization (herein referred to as earnings before interest, taxes, depreciation and amortization [“EBITDA”]), cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid, long-term debt to total capitalization and long-term debt to EBITDA 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 additional measures of its performance. Please refer to the Company’s MD&A for a reconciliation of net income to EBITDA.*

# ADOPTION OF IFRS 16, *LEASES* (“IFRS 16”)

- *On January 1, 2019, the Company retrospectively adopted IFRS 16*
- *Comparatives for the 2018 reporting period have not been restated, as permitted*
- *The application of this new standard resulted in:*
  - *The addition of right-of-use assets and lease liabilities to the consolidated statements of financial position*
  - *Instead of lease expenses, right-of-use asset depreciation and financing costs will be recorded to the consolidated statement of income*
- *Please refer to the impact of new accounting pronouncements and interpretation section in the Company’s MD&A for further details on the adoption of IFRS 16.*

# AGENDA

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- Investment Thesis
- Overview of Stella-Jones
- Strategy and Future Growth
- Overview by Business Unit
- Financial Trends
- 2019 Results
- Appendix





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# INVESTMENT THESIS

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# INVESTMENT THESIS

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- Portfolio of businesses with steady demand
- Extensive network in North America
- Leadership position in markets served
- Track record of performance
- Experienced and proven management team
- Solid balance sheet
- Proven consolidator with disciplined acquisition strategy





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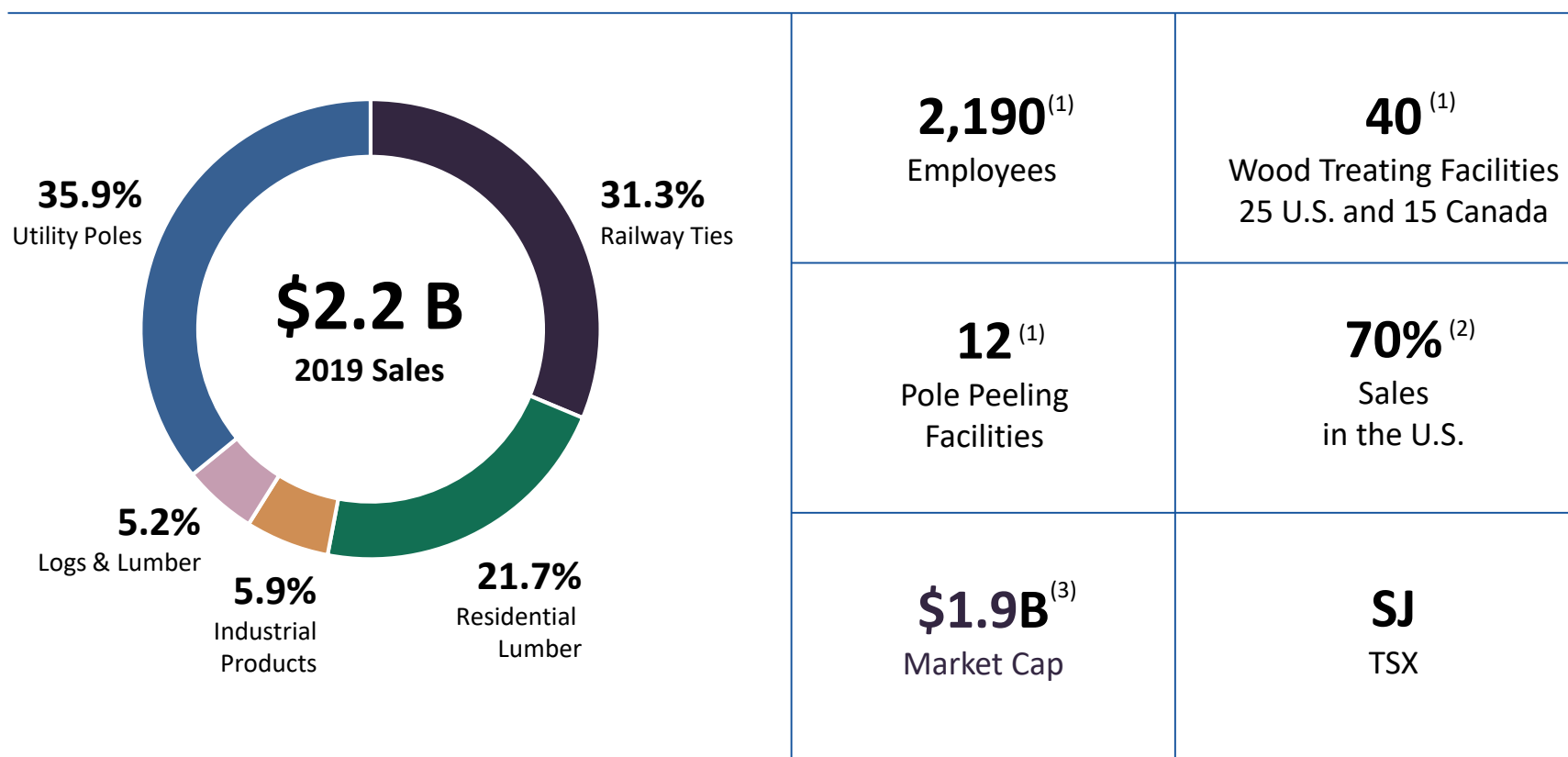
# OVERVIEW OF STELLA-JONES

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# STELLA-JONES AT A GLANCE

## A Leading North American Supplier of Pressure Treated Wood Products

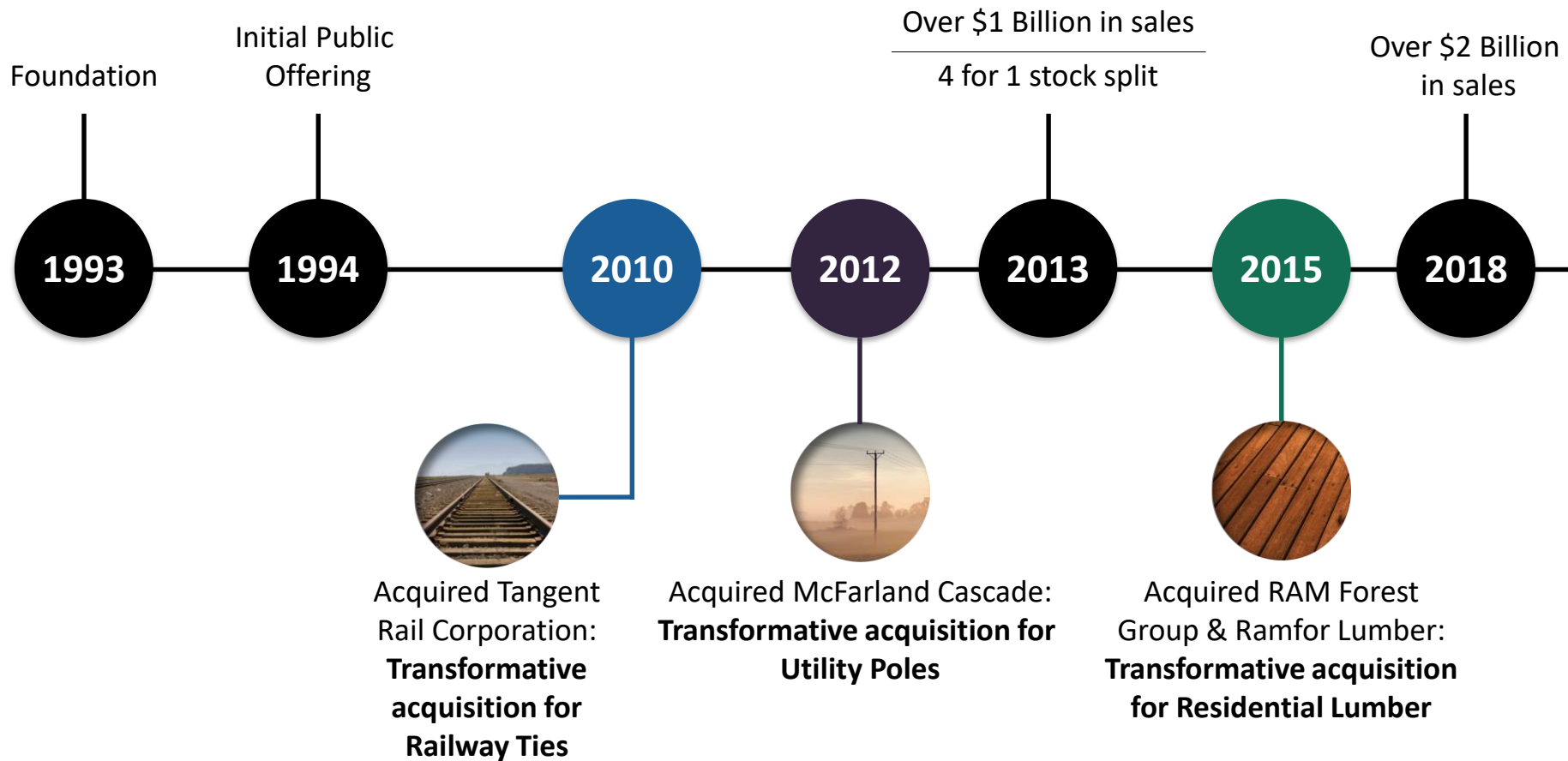


(1) As at December 31, 2019

(2) Based on fiscal 2019 results

(3) As at March 12, 2020

# IMPORTANT MILESTONES



# GROWING BY ACQUISITIONS

July 2003	Cambium Group Inc. (Canada)
August 2005	Webster Wood Preserving (U.S.)
July 2006	Bell Pole Company (Canada)
February 2007	Wood utility pole business of J.H. Baxter (U.S.)
April 2008	The Burke-Parsons-Bowlby Corporation (U.S.)
April 2010	Tangent Rail Corporation (U.S.)
December 2011	Thompson Industries (U.S.)
November 2012	McFarland Cascade Holdings (U.S.)
November 2013	The Pacific Wood Preserving Companies® (U.S.)
May 2014	Wood treating facilities of Boatright Railroad Products (U.S.)
September 2015	Treated Materials Co., Inc. (U.S.)
October 2015	Ram Forest Group Inc. and Ramfor Lumber Inc. (Canada)
December 2015	United Wood Treating Company, Inc. (U.S.)
June 2016	Lufkin Creosoting Co., Inc. and 440 Investments, LLC [“Kisatchie”] (U.S.)
December 2016	Bois KMS Ltée and Northern Pressure Treated Wood Ltd. (Canada)
December 2017	Wood Products Industries Inc. (Canada)
February 2018	Prairie Forest Products (Canada)
April 2018	Wood Preservers Incorporated (U.S.)
April 2019	Shelburne Wood Protection Ltd. (Canada)



## Acquisition Contribution

- Stronger industry player
- Expand North American network
- Broaden product line
- Greater customer service/ flexibility/ emergency response
- Ability to bid on larger projects
- Synergies



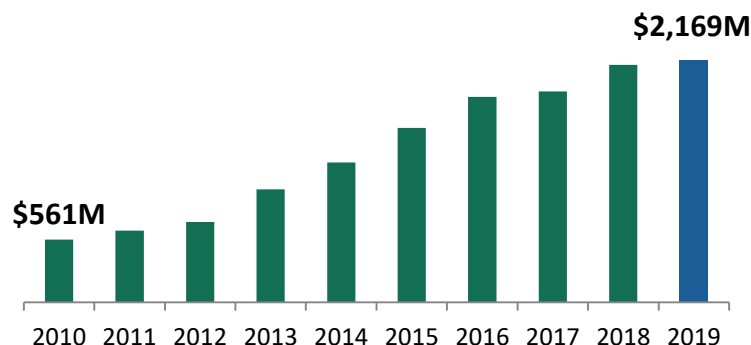
# STELLA-JONES' CONTINENTAL NETWORK



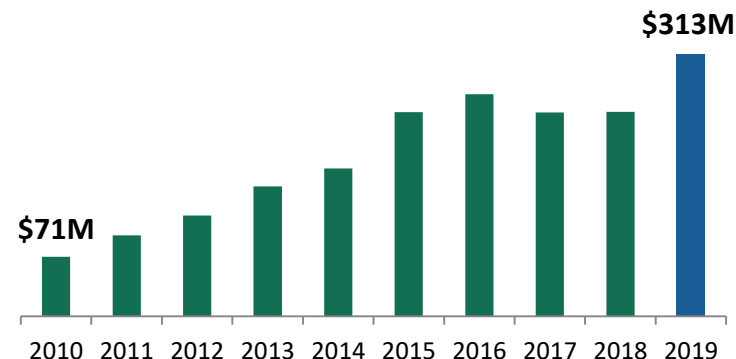
\*Acquired April 2019

# TRACK RECORD OF PERFORMANCE

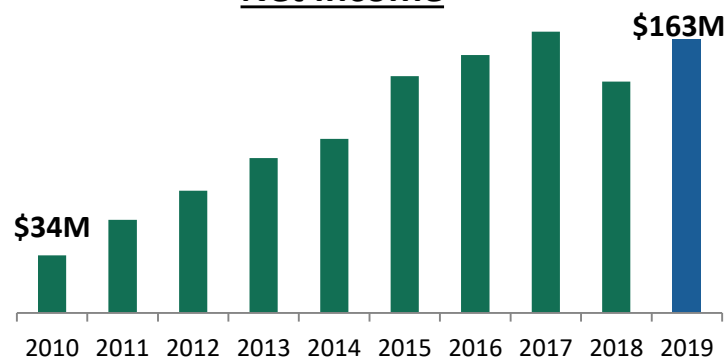
## Sales



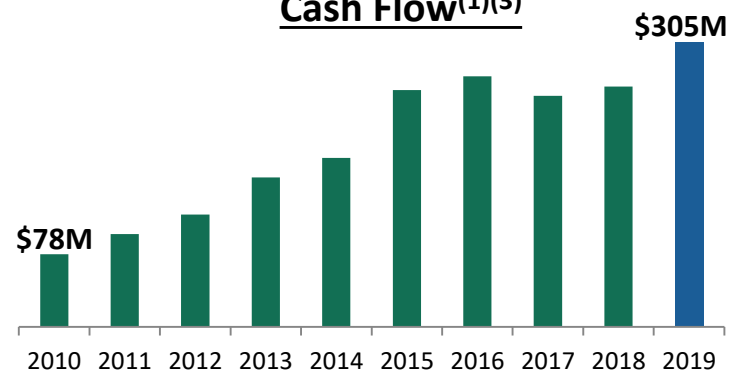
## EBITDA<sup>(1)(2)</sup>



## Net income



## Cash Flow<sup>(1)(3)</sup>

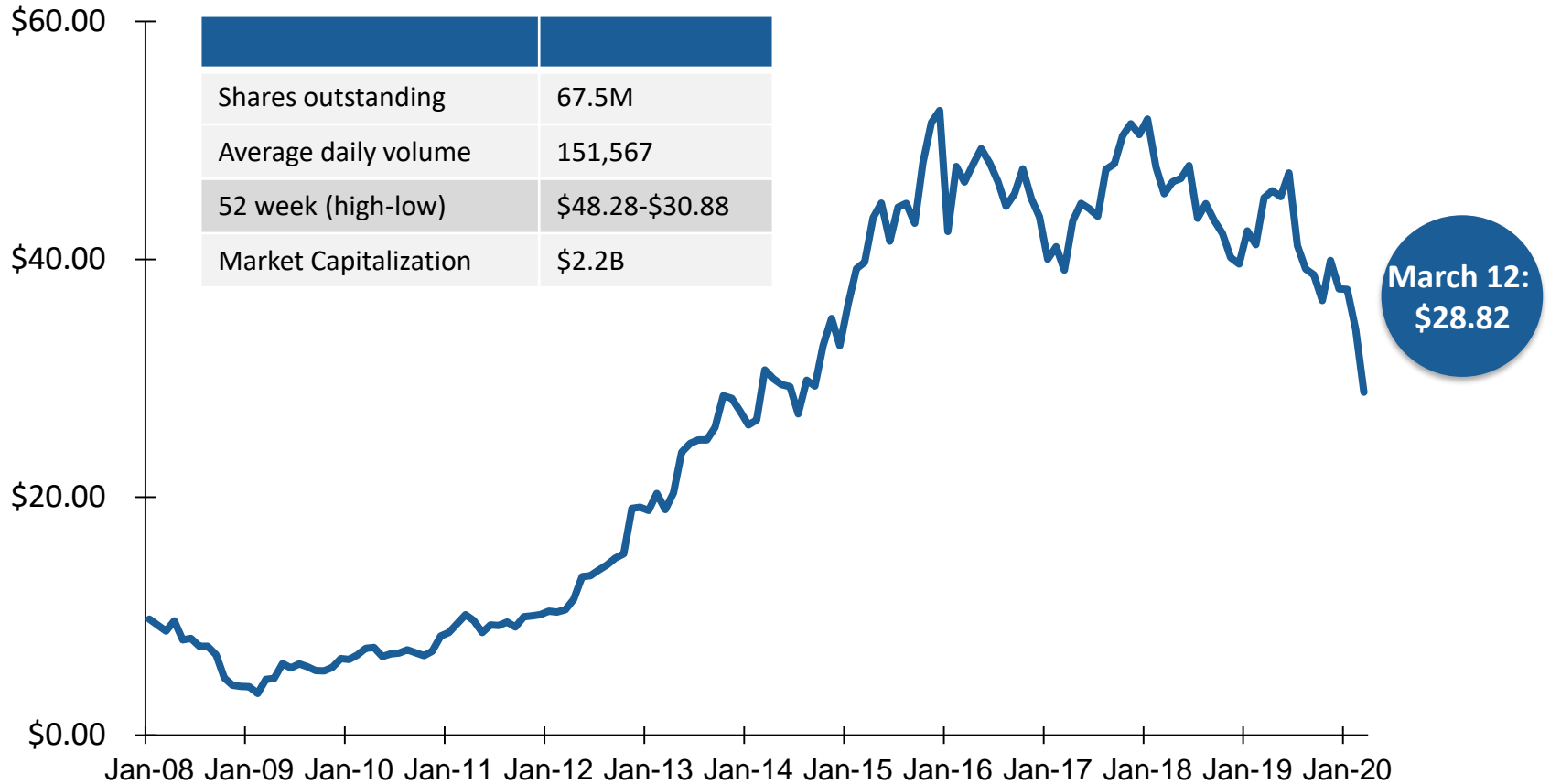


<sup>(1)</sup> This is a non-IFRS financial measure. Please refer to the Company's MD&A.

<sup>(2)</sup> 2019 EBITDA was impacted by the adoption of IFRS 16.

<sup>(3)</sup> Before changes in non-cash working capital components and interest and income tax paid.

# STOCK PRICE PERFORMANCE



Source: Yahoo Finance










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## STRATEGY AND FUTURE GROWTH

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# STRATEGY AND FUTURE GROWTH BY BUSINESS UNIT

		Market	Growth Drivers	Trends	Growth Strategy
	<b>35.9%</b> <b>Utility Pole Sales</b>	<ul style="list-style-type: none"> <li>Potential for further consolidation in the North American market</li> </ul>	<ul style="list-style-type: none"> <li>Replacement programs</li> <li>Weather-related events</li> <li>Mid-single digit growth</li> </ul>	<ul style="list-style-type: none"> <li>Growth in replacement demand from increasing average age of poles</li> </ul>	<ul style="list-style-type: none"> <li>Acquisitions</li> <li>Leveraging the upcoming increase in replacement demand</li> </ul>
	<b>31.3%</b> <b>Railway Tie Sales</b>	<ul style="list-style-type: none"> <li>Stable market</li> <li>Market is fairly consolidated</li> </ul>	<ul style="list-style-type: none"> <li>Maintenance requirements</li> <li>Market gains</li> <li>GDP growth</li> </ul>	<ul style="list-style-type: none"> <li>Improved untreated railway ties availability</li> </ul>	<ul style="list-style-type: none"> <li>Acquisitions</li> <li>Increased market reach</li> </ul>
	<b>21.7%</b> <b>Residential Lumber Sales</b>	<ul style="list-style-type: none"> <li>Partially consolidated in Canada</li> </ul>	<ul style="list-style-type: none"> <li>Home renovation</li> <li>Dealer network</li> </ul>	<ul style="list-style-type: none"> <li>Increased market reach in dealer network</li> </ul>	<ul style="list-style-type: none"> <li>Expanding the dealer network</li> </ul>
	<b>5.9%</b> <b>Industrial Product Sales</b>	<ul style="list-style-type: none"> <li>Niche business driven primarily by bridge timbers, road crossings, pilings and special projects</li> </ul>			
	<b>5.2%</b> <b>Logs and Lumber Sales</b>	<ul style="list-style-type: none"> <li>Business used to optimize costs</li> </ul>			



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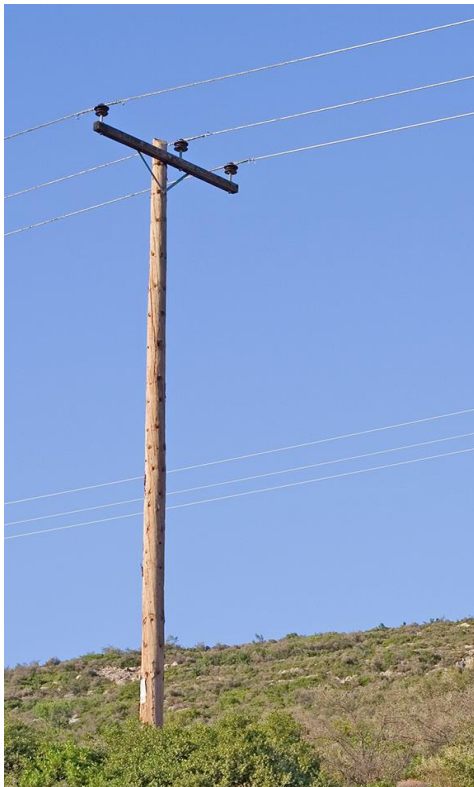
## OVERVIEW BY BUSINESS UNIT

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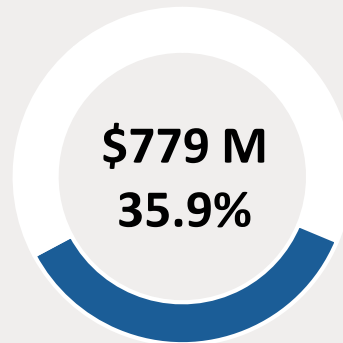


# UTILITY POLES - OVERVIEW

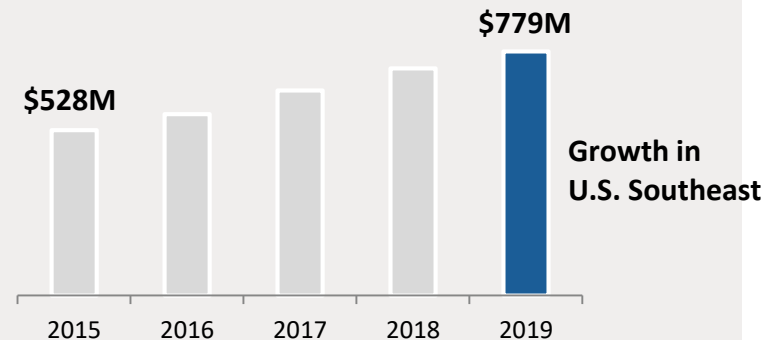
Leading North American supplier of wood utility poles, providing over one million poles per year to replace, upgrade and develop new electrical utility and telecommunications lines across Canada and the United States



## 2019 Sales



## 5-Year Sales



## 20 Facilities

- 7 in Canada
- 13 in U.S.

## Transformative Acquisition

- McFarland (2012)

# UTILITY POLES - OFFERING



## Competitive Advantages

**An extensive distribution network, continuous supply, emergency response and fire-retardant wrap**

## Customers

- Electrical utility companies
- Telecommunication companies

## Contracts

- Majority of business under multi-year agreements
- Varying 3 to 7 years (evergreen features)

### Services

- Incising
- Radial Drilling
- Through Boring
- Framing
- Laminated Wood Pole Design

### Wood Species

- Western Red Cedar
- Douglas Fir
- Red Pine
- Southern Yellow Pine

### Preservatives

- Pentachlorophenol (Penta)
- Chromated Copper Arsenate
- Creosote
- Copper Naphthenate

# UTILITY POLES – MARKET CONDITIONS

Growth in replacement demand from increasing average age of poles



## Market Size

- There are about 150MM poles in North America, of which 105MM are wood
- Wood offers the best value over alternative materials such as steel, composites and concrete



## Marketplace

- Potential for further consolidation in the North American market



## Growth Drivers

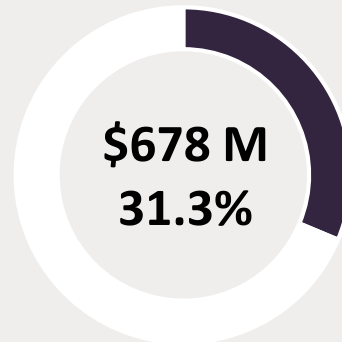
- Replacement programs (life span of poles is typically 65 years)
- Weather related events
- Mid-single digit growth

# RAILWAY TIES - OVERVIEW

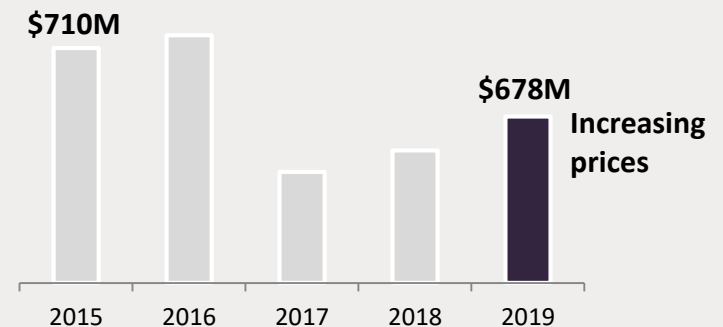
Industry leader in the production of quality pressure treated railroad ties and timbers, supplying over 10 million crossties per year



2019 Sales



5-Year Sales



## 12 Facilities

- 2 in Canada
- 10 in U.S.

## +1,200 Suppliers

- Hardwood sawmills

## Transformative Acquisition

- Tangent Rail (2010)



# RAILWAY TIES - OFFERING



## Competitive Advantages

**An extensive distribution network, continuous supply and short delivery times**

## Customers

- ~65% Class 1 railroads
- ~35% short and regional rail lines & contractors

## Contracts

- Long-term contracts of up to 5 years with Class 1 railroads
- Short and regional rail lines and contractor orders are obtained primarily through spot market bids

### Services

- Pre-Plating
- Pre-boring
- Crossing panels
- End-plating

### Wood Species

- Mixed Hardwood
- Oak

### Preservatives

- Creosote
- Borate
- Copper Naphthenate

# RAILWAY TIES – MARKET CONDITIONS

Improved untreated railway tie inventory availability is expected to lead to opportunistic sales and improved margins



## Market Size

- ~18 million railway tie purchases on an annualized basis in North America
- 90% of ties sold in North America are for maintenance and over 90% are wood



## Marketplace

- Stable market
- Market is fairly consolidated



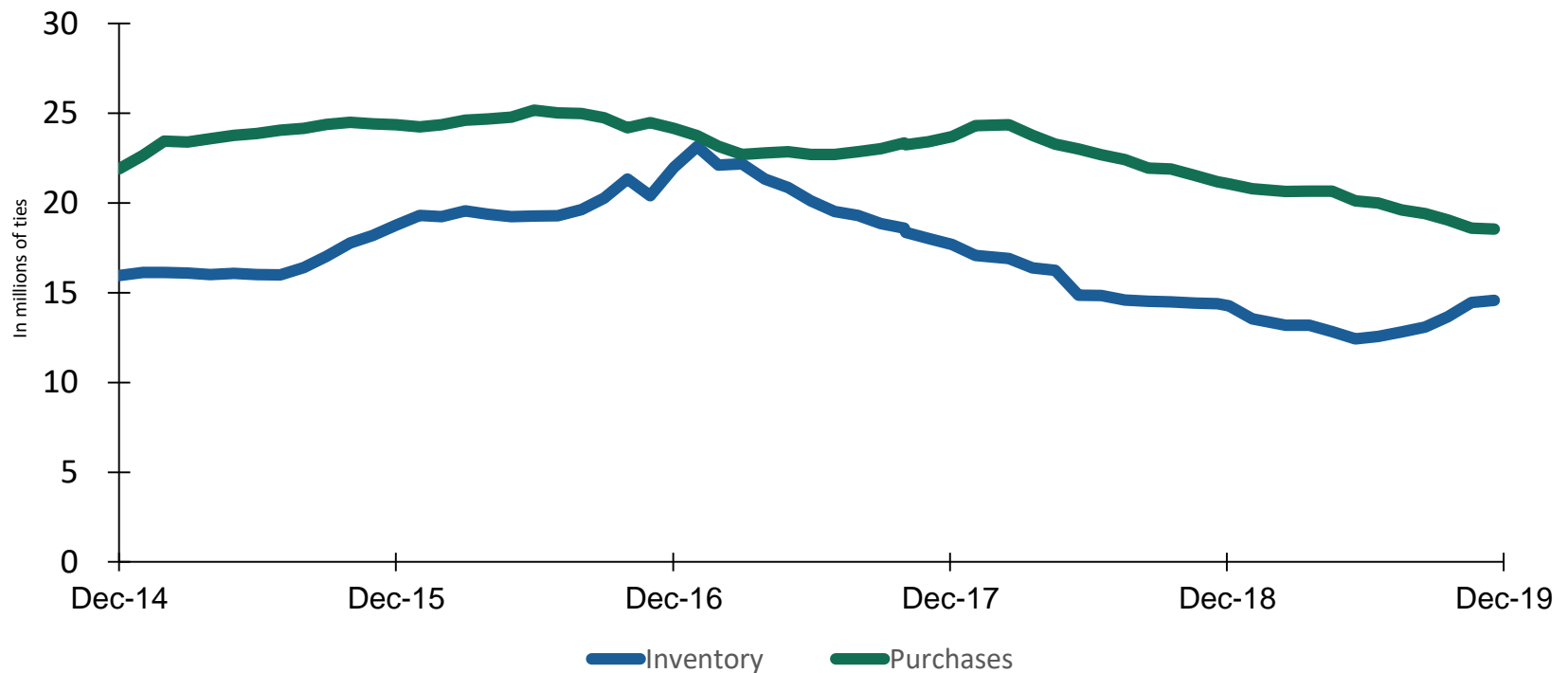
## Growth Drivers

- Maintenance requirements
- Market reach gains
- Acquisitions
- GDP growth

# ANNUALIZED RAILWAY TIE – PURCHASES & INVENTORY



Industry inventory levels improved in the second half of 2019 to 14.6 million as at December 31, 2019



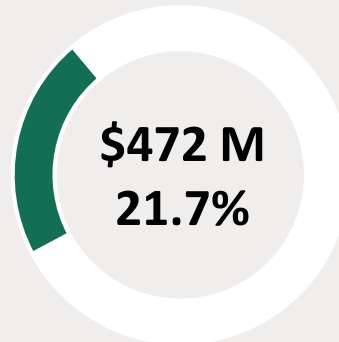
Source: Railway Tie Association (RTA)

# RESIDENTIAL LUMBER - OVERVIEW

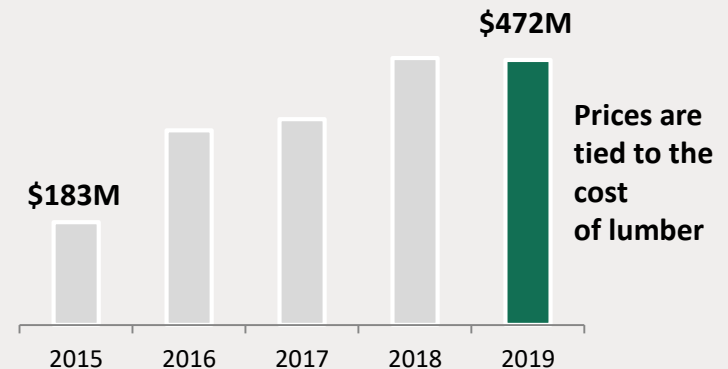
Provides seamless, end-to-end service to key North American retailers, supplying hundreds of millions of board feet of treated residential lumber across Canada and the United States each year



## 2018 Sales



## 5-Year Sales



## 8 Facilities

- 6 in Canada
- 2 in U.S.

## Transformative Acquisition

- Ram Forest Group and Ramfor Lumber (2015)



# RESIDENTIAL LUMBER - OFFERING



## Competitive Advantages

**Low transportation costs, continuous supply, short delivery times and dedicated distribution centres**

## Customers

- ~80% Big box retailer
- Dealer network

## Contracts

- Renewed annually

### Services

- Lumber
- Distribution of complementary accessories

### Wood Species

- Hemlock
- Pine
- Spruce
- Fir

### Preservatives

- Micronized Copper Azole (Micropro)
- Alkaline Copper Quaternary (ACQ)
- Copper Azole (CA)

# RESIDENTIAL LUMBER – MARKET CONDITIONS

Continued demand for new construction and outdoor renovation projects in the North American residential and commercial markets



## Market Size

- Difficult to access
- Limited pure plays



## Marketplace

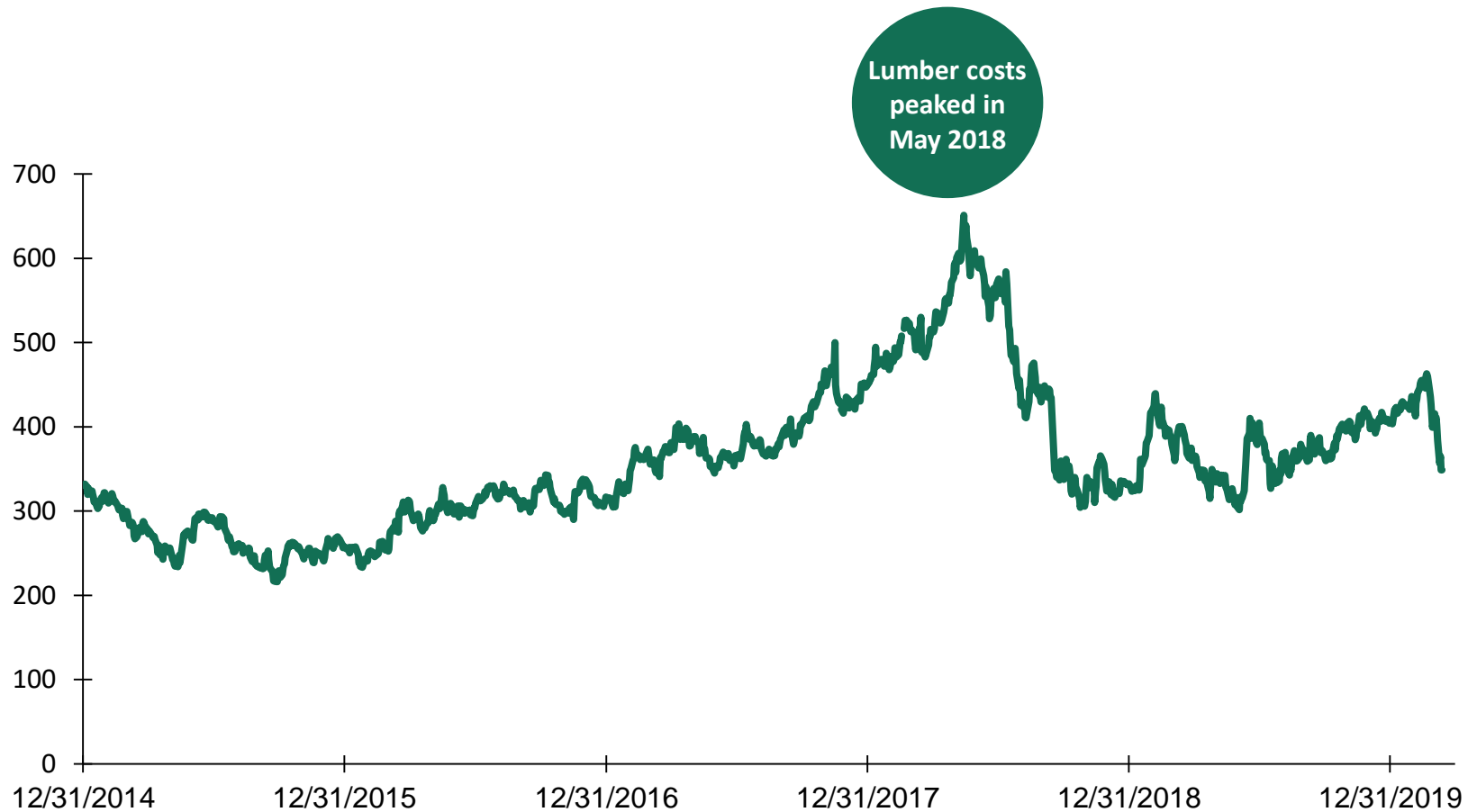
- Partially consolidated in Canada



## Growth Drivers

- Home renovation
- Expanding the dealer network

# LUMBER COSTS – 5 YEAR EVOLUTION



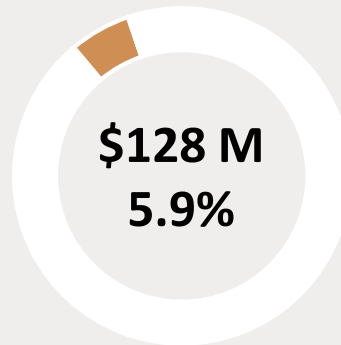
Source: Factset

# INDUSTRIAL PRODUCTS - OVERVIEW

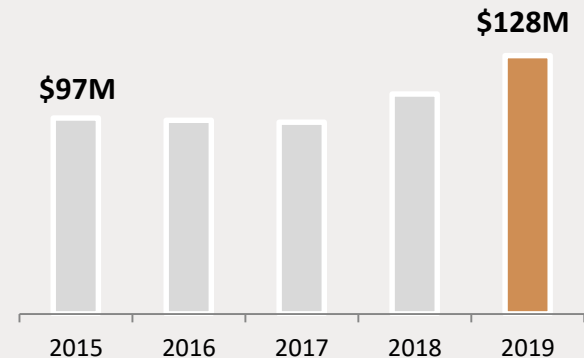
A leading supplier of pressure treated wood products to the marine, industrial and civic sectors for outdoor applications including piling, wharf timbers, bridge timbers, crane mats, railway crossings and laminated poles



2019 Sales



5-Year Sales



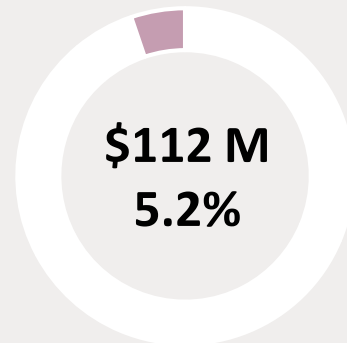


# LOGS AND LUMBER - OVERVIEW

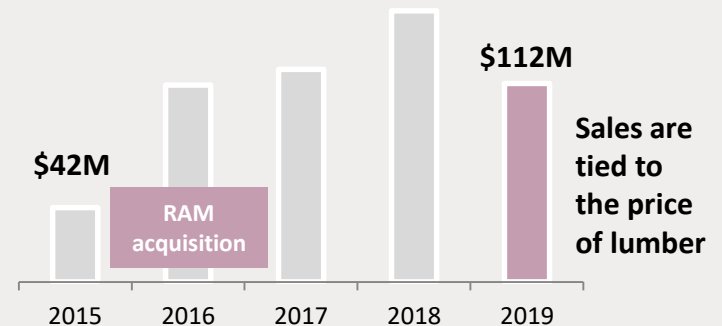
Business used to optimize procurement and does not generate margin



2019 Sales



5-Year Sales





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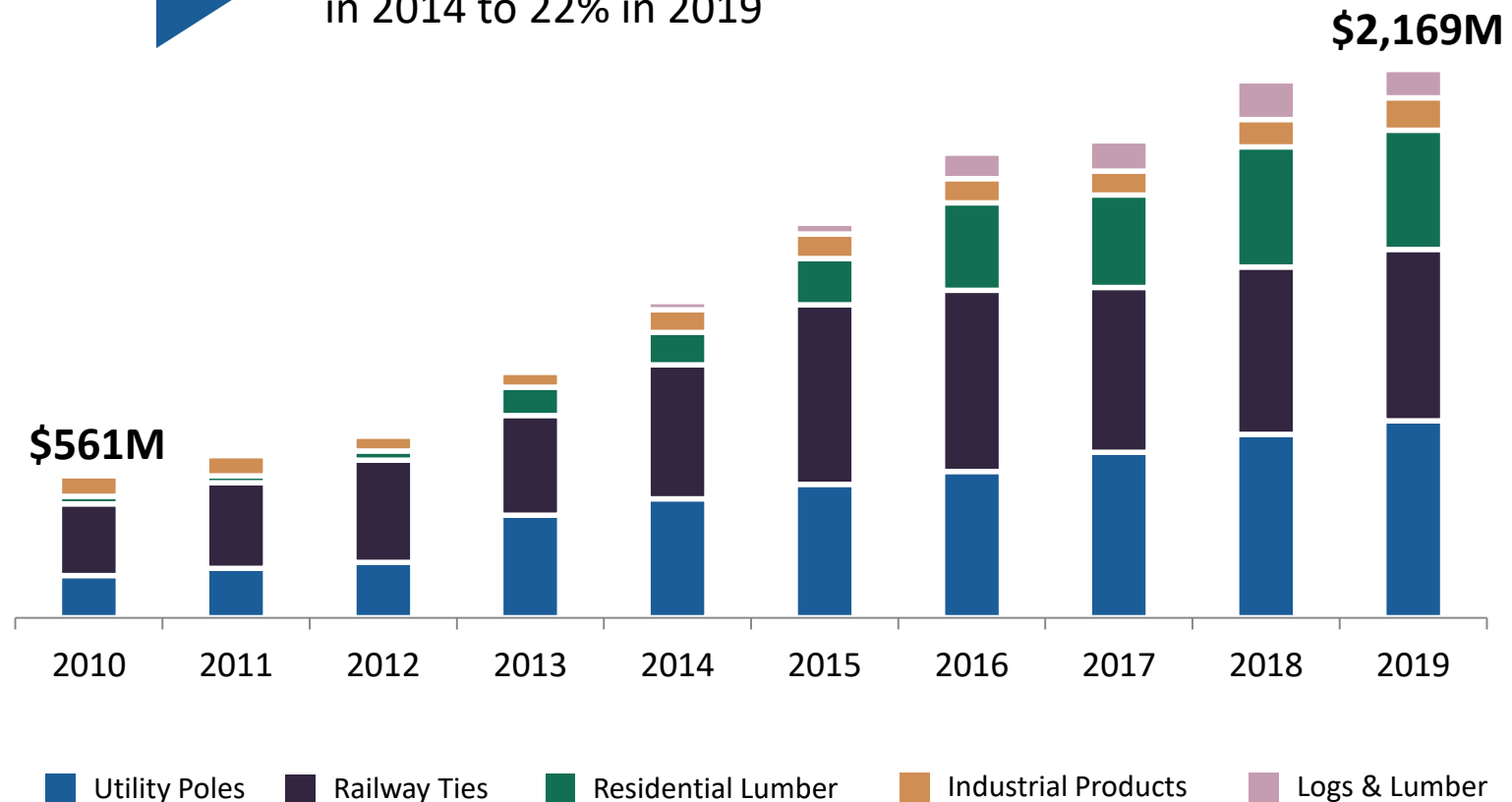
## FINANCIAL TRENDS

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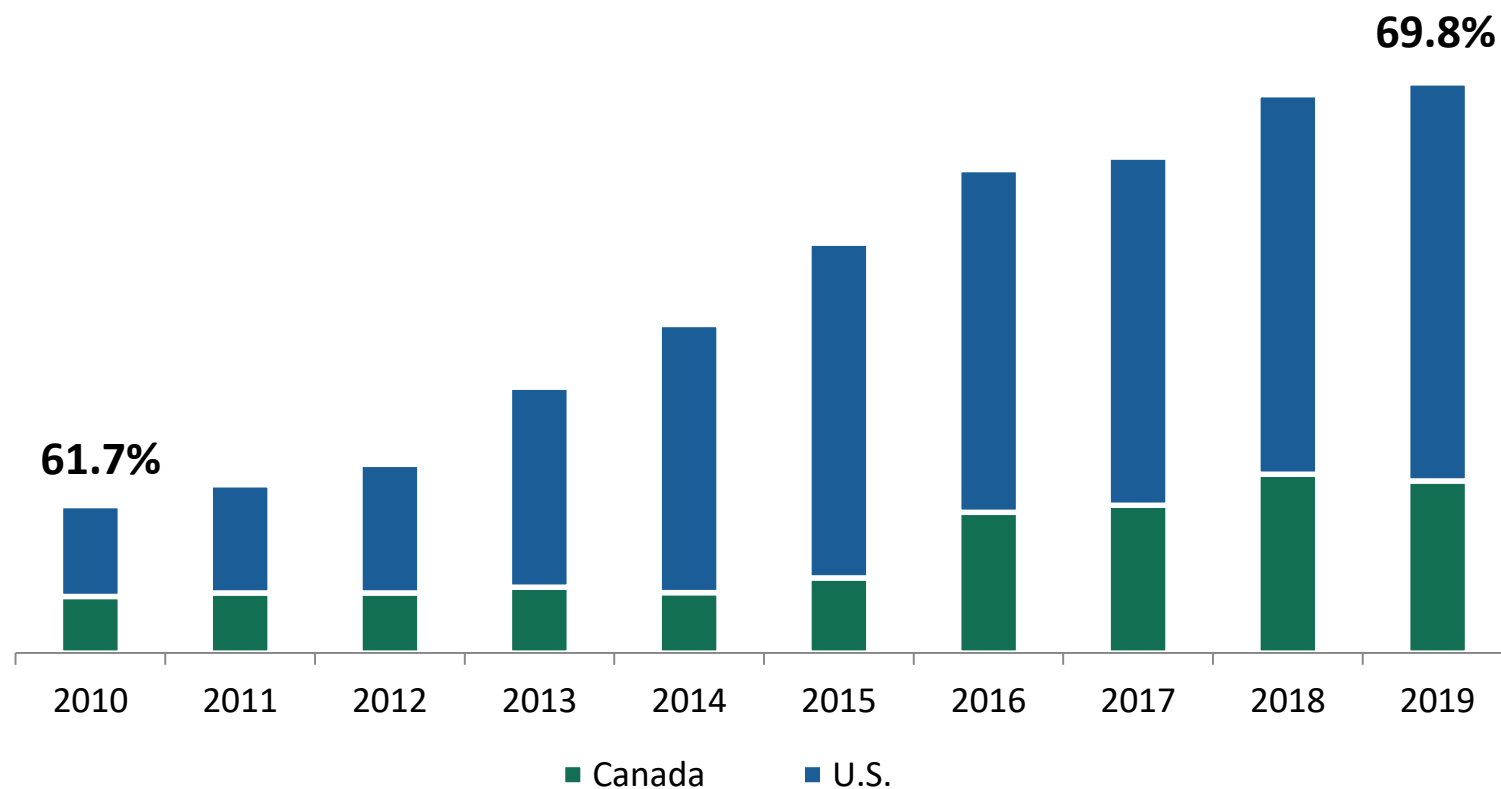
# Building a Strong Third Pillar



Residential lumber grew from 10% of sales in 2014 to 22% in 2019

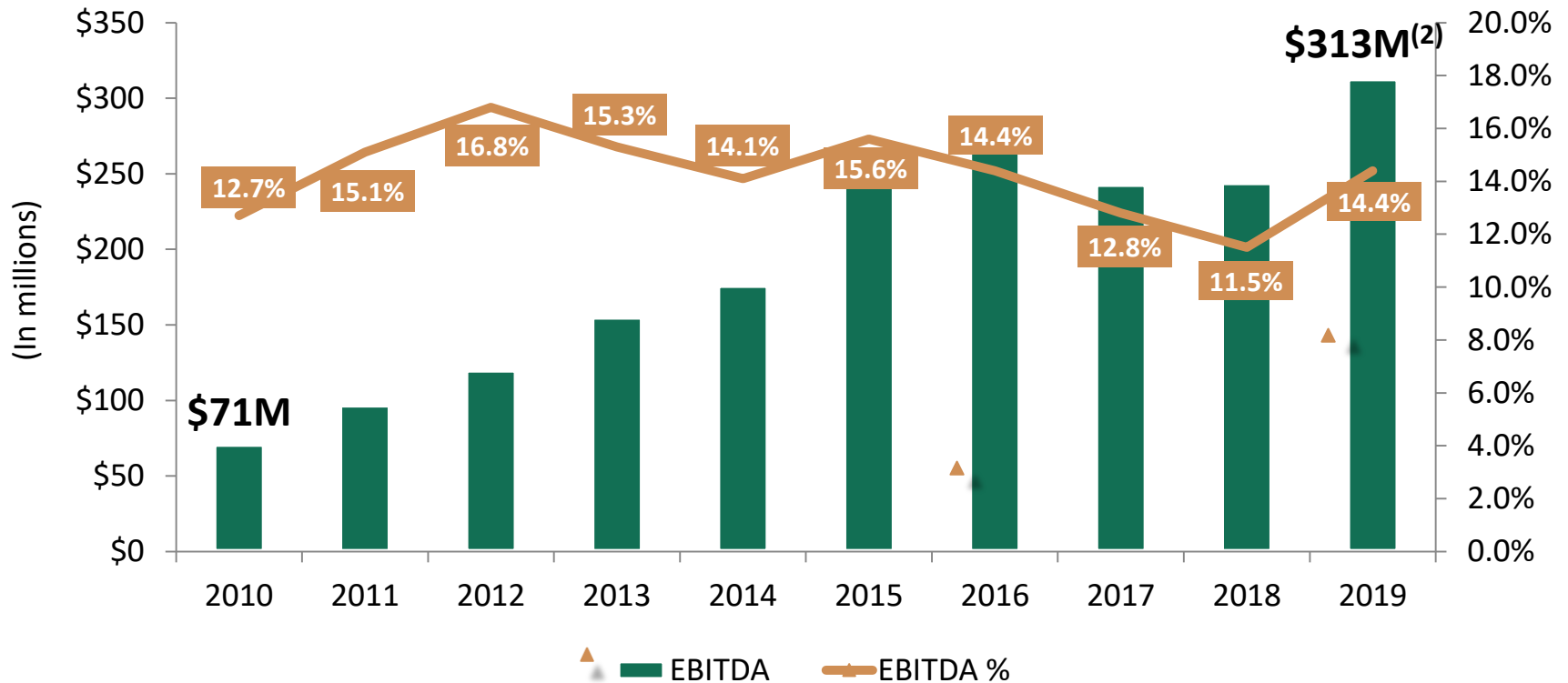


## Growing Proportion of U.S. Sales as a % of Total Sales





# EBITDA<sup>(1)</sup>



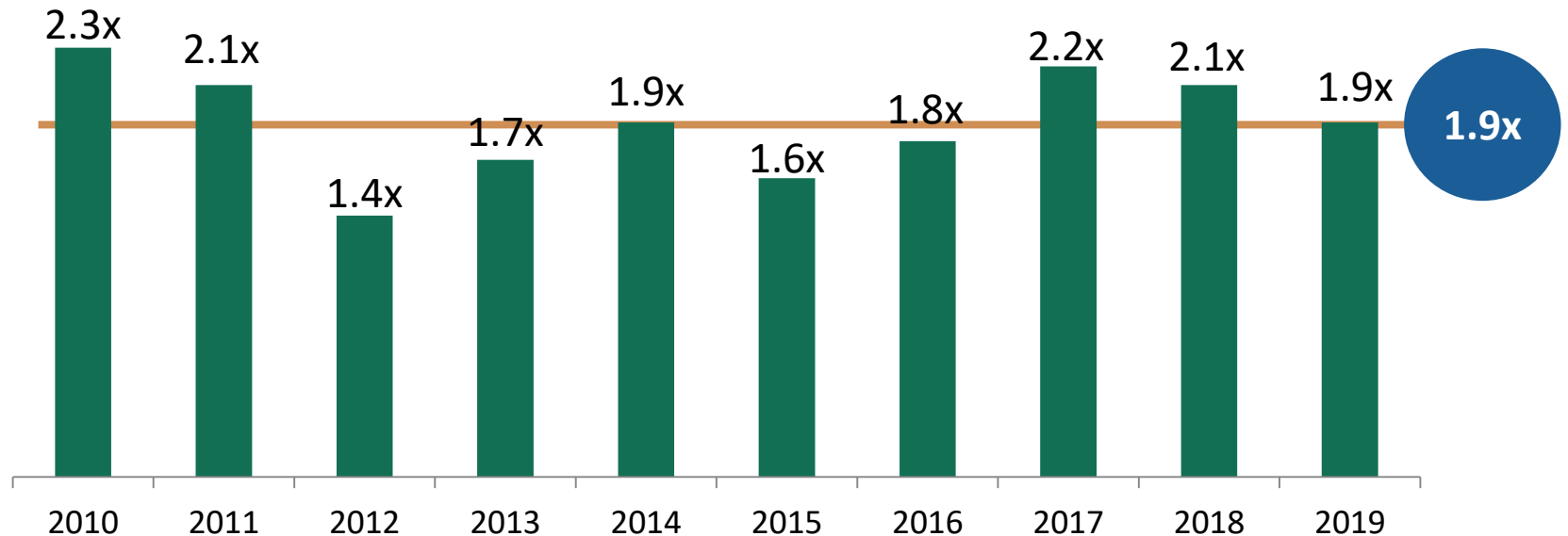
(1) This is a non-IFRS financial measure. Please refer to the Company's MD&A.

(2) Impacted by the adoption of IFRS 16.

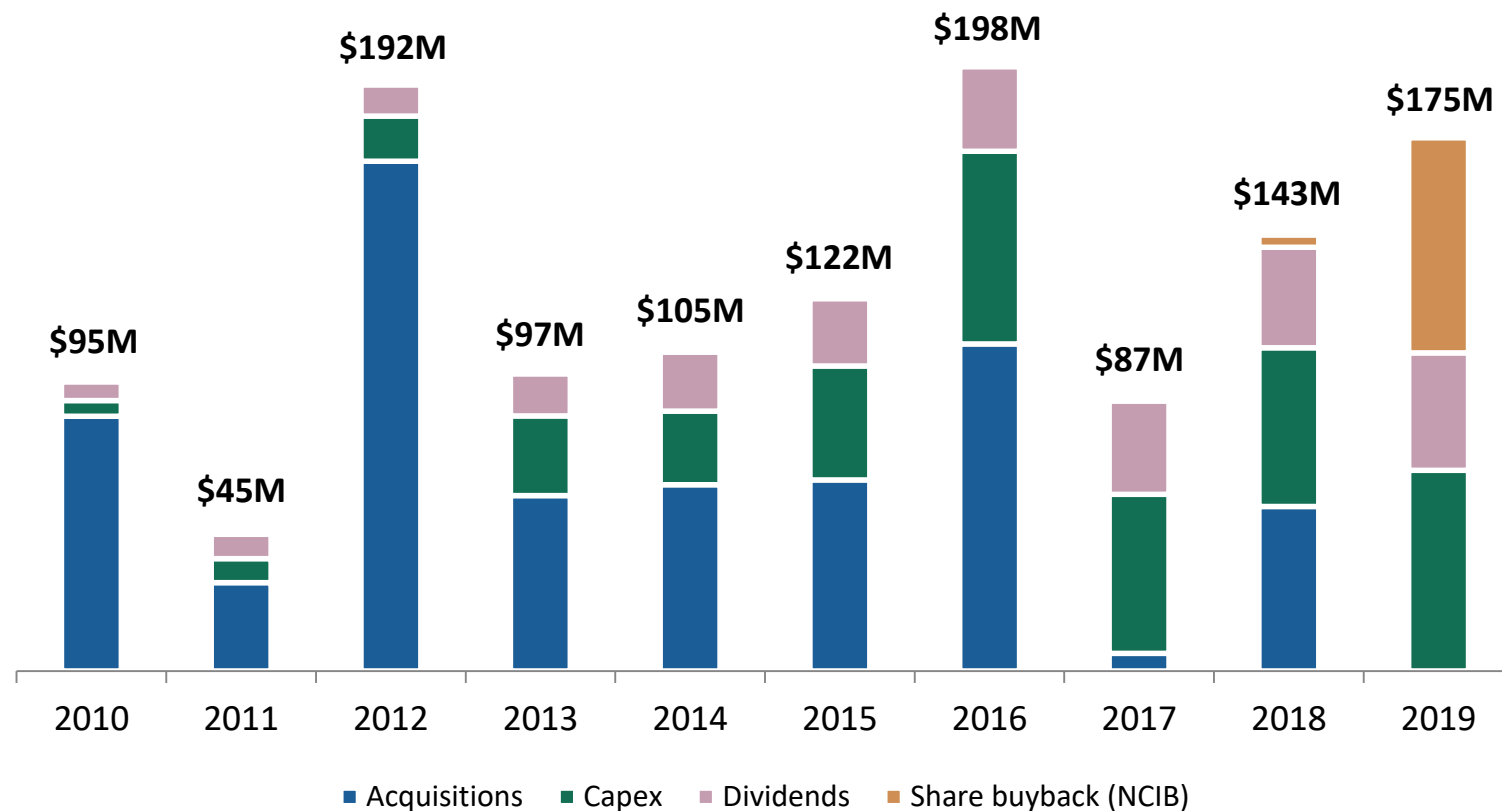
# Inventory Turnover



Because of the long periods required to air-season wood, inventory turnover has historically been relatively low



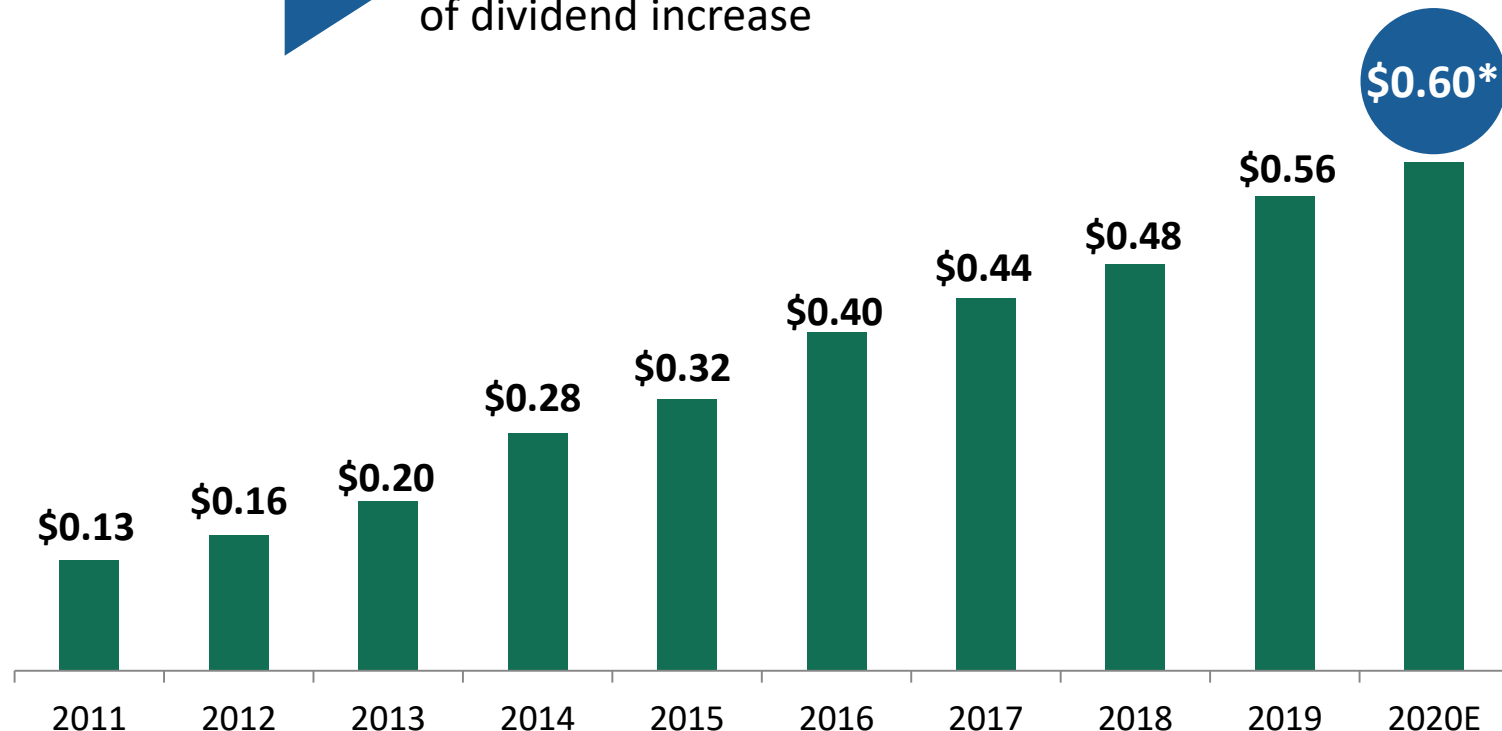
# Allocating Capital Equitably



# Increasing Dividends Consistently



2020 will mark the 16<sup>th</sup> consecutive year of dividend increase

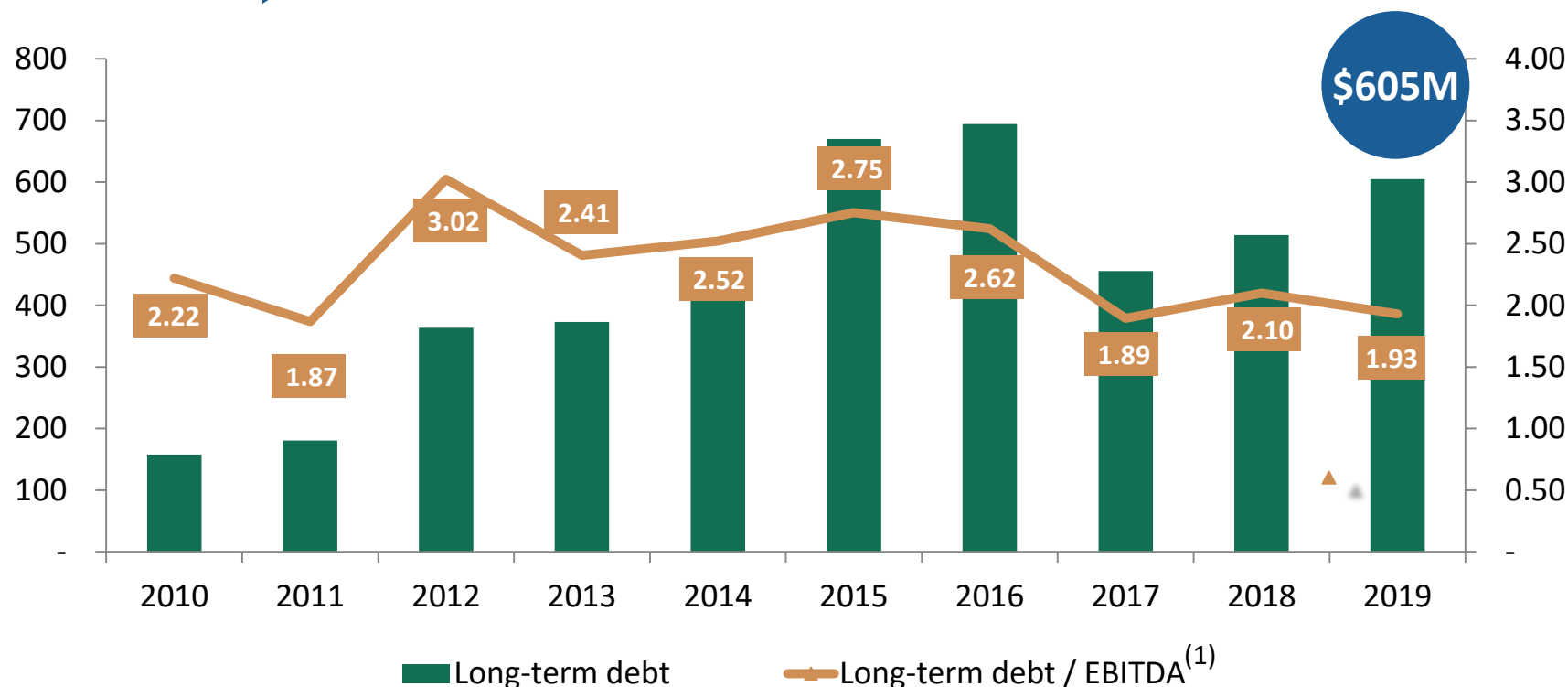


\* Projected based on the latest quarterly dividend

# Maintaining a Solid Financial Position



**\$150.8 million** available on the Company's syndicated credit facilities as at December 31, 2019



<sup>(1)</sup> This is a non-IFRS financial measure. Please refer to the Company's MD&A.





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## 2019 RESULTS

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# 2019 – 19<sup>th</sup> Consecutive Year of Sales Growth



## SALES VARIANCE

2018 Sales (M)	\$2,123.9
Acquisitions	11.6
Currency variations	41.9
Organic growth	
Pressure treated wood	33.7
Logs and lumber	(42.1)
2019 Sales (M)	\$2,169.0

■ Utility Poles
 ■ Railway Ties
 ■ Residential Lumber
 ■ Industrial Products
 ■ Logs & Lumber

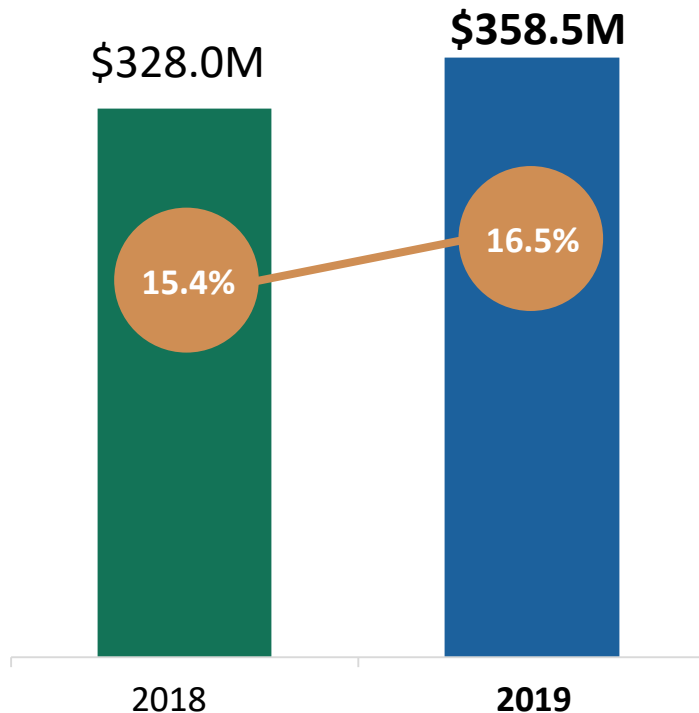
# 2019 – Sales Variance



Pressure Treated Wood Organic Growth of 1.7%

(in millions of dollars)	Utility Poles	Railway Ties	Residential Lumber	Industrial Products	TOTAL PRESSURE TREATED WOOD	Logs & Lumber	CONSOLIDATED SALES
2018 Sales	725.0	662.4	474.4	109.2	1,971.0	152.9	2,123.9
Acquisitions	0.5	-	7.3	3.8	11.6	-	11.6
FX impact	17.3	16.2	4.5	2.9	40.9	1.0	41.9
Organic growth	36.4	(0.4)	(14.6)	12.3	33.7	(42.1)	(8.4)
2019 Sales	779.2	678.2	471.6	128.2	2,057.2	111.8	2,169.0
Organic growth %	5.0%	(0.1%)	(3.1%)	11.3%	1.7%	(27.5%)	(0.4%)

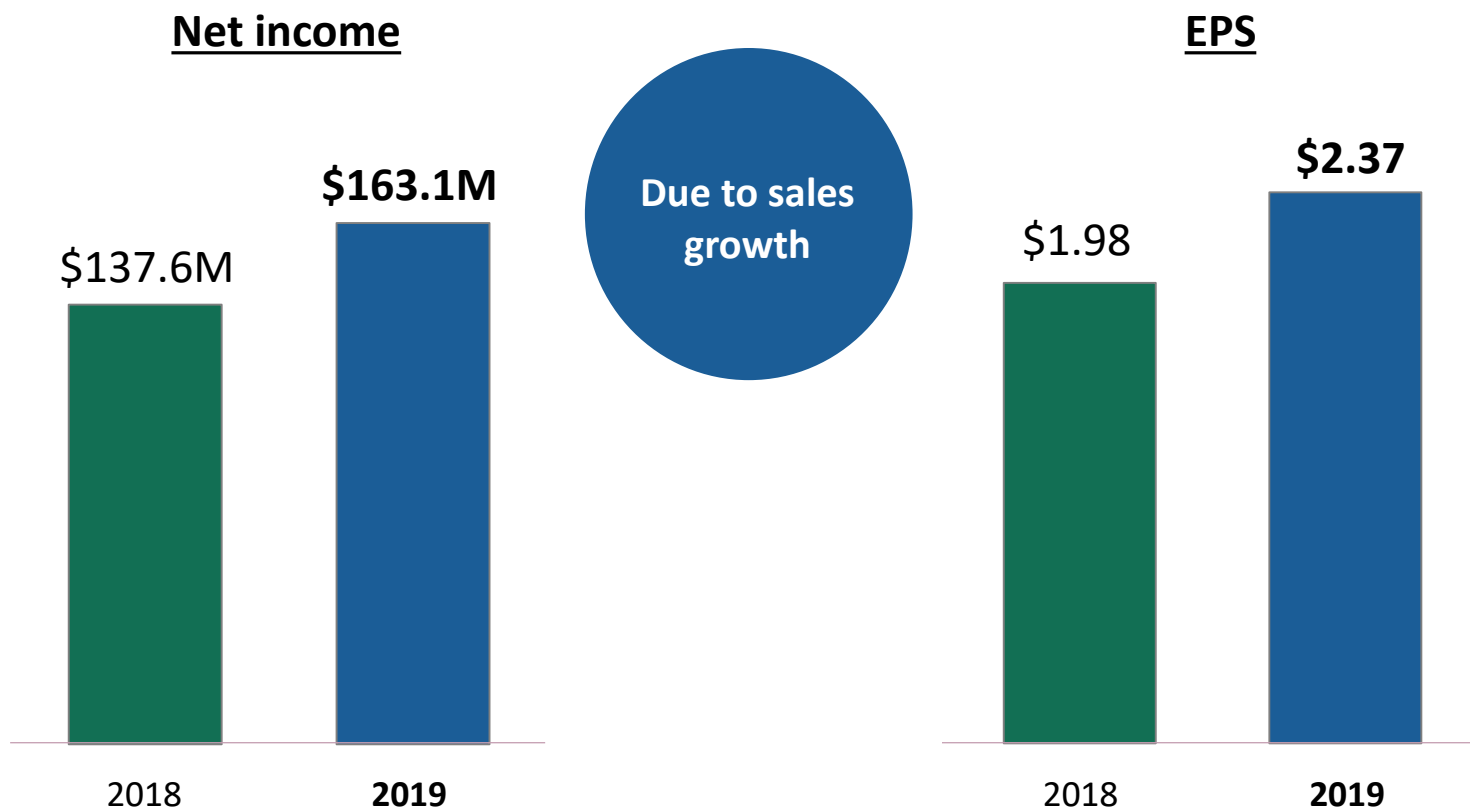
## 2019 – Increased Gross Profit<sup>(1)</sup> and Margin



Higher selling prices for utility poles and railway ties drove the gross profit improvement.

<sup>(1)</sup> This is a non-IFRS financial measure. Please refer to the Company's MD&A.

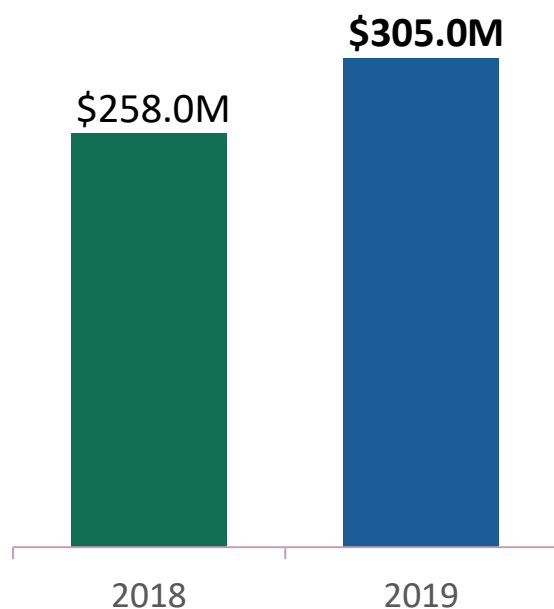
## 2019 – Net Income & EPS Increased



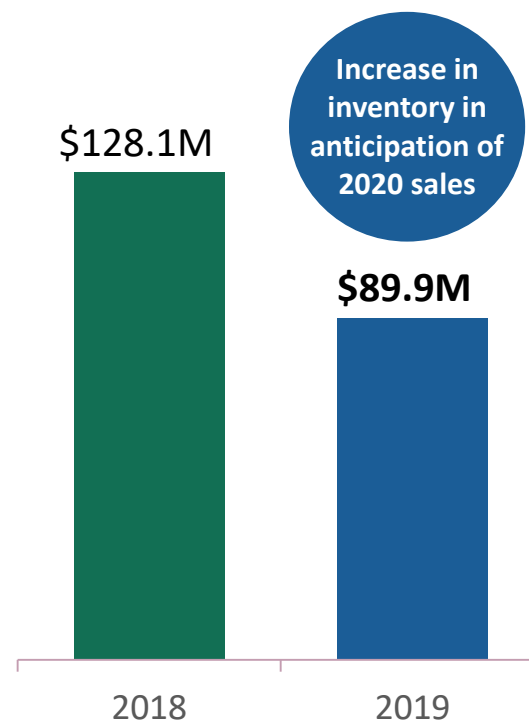


# Managing Cash Flow for Seasonality

## Cash Flow before certain items<sup>(1)(2)</sup>



## Cash Flow from Operating Activities



<sup>(1)</sup> This is a non-IFRS financial measure. Please refer to the Company's MD&A.

<sup>(2)</sup> Before changes in non-cash working capital components and interest and income tax paid.

# 2020 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

Consolidated	Higher sales
	Improvement in operating margins
	EBITDA in the range of \$320M to \$345M
Utility Poles	Sales and margins are expected to improve
Railway Ties	Sales and margins are forecasted to increase
Residential Lumber	Sales are expected to increase. Absolute dollar margins are expected to increase but margin as a % of sales is expected to remain at levels similar to those of 2019
Industrial Products	Sales are expected to be slightly lower
Logs and Lumber	Sales are forecasted to increase



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## APPENDIX

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# Income Statement - 5-Year Financial Summary

	2019	2018	2017	2016	2015
Sales	2,169.0	2,123.9	1,886.1	1,838.4	1,559.3
Gross Profit <sup>(1)</sup>	358.5	328.0	315.2	333.7	307.3
EBITDA <sup>(1)</sup>	312.9	244.4	243.1	264.8	243.4
<i>EBITDA %<sup>(1)</sup></i>	<i>14.4%</i>	<i>11.5%</i>	<i>12.9%</i>	<i>14.4%</i>	<i>15.6%</i>
Operating income <sup>(1)</sup>	242.3	206.3	207.4	233.2	220.1
<i>Operating %<sup>(1)</sup></i>	<i>11.2%</i>	<i>9.7%</i>	<i>11.0%</i>	<i>12.7%</i>	<i>14.1%</i>
Net income	163.1	137.6	167.9	153.9	141.4
EPS - diluted	2.37	1.98	2.42	2.22	2.04

<sup>(1)</sup> This is a non-IFRS financial measure. Please refer to the Company's MD&A.

# Financial Position - 5-Year Financial Summary

	2019	2018	2017	2016	2015
Working capital	1,009.6	909.0	779.4	928.0	854.4
Total assets	2,281.1	2,062.2	1,786.0	1,960.9	1,778.9
Long-term debt <sup>(1)</sup>	604.9	513.5	455.6	694.0	669.9
Shareholders' equity	1,288.3	1,281.4	1,115.5	1,026.4	913.5
Long-term debt <sup>(2)</sup> to total capitalization <sup>(1)</sup>	0.32:1	0.29:1	0.29:1	0.40:1	0.42:1
Long-term debt <sup>(2)</sup> to EBITDA <sup>(1)</sup>	1.93	2.10	1.89	2.62	2.75
Return on capital employed	11.5%	10.8%	12.5%	12.7%	13.6%

<sup>(1)</sup> Including the current portion of long-term debt.

<sup>(2)</sup> This is a non-IFRS financial measure. Please refer to the Company's MD&A.





[WWW.STELLA-JONES.COM](http://WWW.STELLA-JONES.COM)