



Source: Stella-Jones Inc.

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STELLA-JONES REPORTS SECOND QUARTER RESULTS

- **Sales increased 18% to \$903 million**
- **EBITDA rose 50% to a new record of \$180 million, or a margin of 20%**
- **Net income reached \$115 million, or \$1.76 per share**
- **Solid financial position with a net debt-to-EBITDA ratio of 1.7x**
- **Annual 2021 EBITDA forecast revised to \$410 to \$440 million**

Montreal, Quebec – August 3, 2021 - Stella-Jones Inc. (TSX: SJ) (“Stella-Jones” or the “Company”) today announced financial results for its second quarter ended June 30, 2021.

“We are very pleased with our second quarter performance, which included strong sales growth in each of our product categories. Volume gains in utility poles and railway ties, combined with unprecedented high market prices of lumber, drove sales to over \$900 million and EBITDA to a record quarter,” stated Éric Vachon, President and CEO of Stella-Jones.

“These results allowed us to generate operating cash flows of \$173 million, reduce the indebtedness related to the seasonal investment in working capital in the first quarter and return \$38 million to shareholders during the quarter. While we have revised the full-year EBITDA forecast to reflect the normalization of lumber market conditions, we foresee solid EBITDA growth in 2021 and are confident that our leading utility poles and railway ties core product categories will continue to deliver sustained growth. With our financial strength, scale and focus on execution and innovation, we are uniquely positioned to capitalize on growth opportunities and generate solid returns for our shareholders,” concluded Mr. Vachon.

Financial Highlights (in millions of Canadian dollars, except per share data and margin)	Q2-21	Q2-20	YTD Q2-21	YTD Q2-20
Sales	903	768	1,526	1,276
Gross profit ⁽¹⁾	197	131	309	214
Gross profit margin ⁽¹⁾	21.8%	17.1%	20.2%	16.8%
EBITDA ⁽¹⁾	180	120	279	183
EBITDA margin ⁽¹⁾	20.0%	15.6%	18.3%	14.4%
Operating income	161	101	243	146
Operating income margin ⁽¹⁾	17.8%	13.2%	15.9%	11.4%
Net income for the period	115	69	171	97
Earnings per share - basic and diluted	1.76	1.02	2.61	1.43
Weighted average shares outstanding (basic, in '000s)	65,356	67,479	65,532	67,474

(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.

SECOND QUARTER RESULTS

Sales for the second quarter of 2021 reached \$903 million, up \$135 million, versus sales of \$768 million for the corresponding period last year. Excluding the negative impact of the currency conversion of \$63 million, pressure-treated wood sales rose \$136 million, or 18%, driven by growth in the Company's three core product categories: residential lumber benefited from the unprecedented high market prices of lumber, utility poles benefited from increased volumes, upward price adjustments and an improved sales mix while railway ties sales growth stemmed from volume gains. The rise in market lumber prices during the quarter also explains the increase in sales of the logs and lumber product category.

Pressure-treated wood products:

- **Utility poles (26% of Q2-21 sales):** Utility poles sales increased to \$236 million, compared to sales of \$230 million in the corresponding period last year. Excluding the currency conversion effect, utility poles sales increased by \$30 million, or 13%, driven by improved maintenance demand for distribution poles, upward price adjustments and a better sales mix, including the impact of additional fire-resistant wrapped pole sales volumes. This growth was partially offset by less project-related volumes.
- **Railway ties (24% of Q2-21 sales):** Railway ties sales were \$216 million, compared to sales of \$225 million in the same period last year. Excluding the currency conversion effect, railway ties sales increased \$15 million, or 7%, largely attributable to higher volumes for Class 1 customers due to the timing of shipments. The higher sales volumes were offset in part by pricing pressures for non-Class 1 customers, which eased somewhat during the quarter.
- **Residential lumber (37% of Q2-21 sales):** Sales in the residential lumber category rose to \$330 million, compared to sales of \$257 million in the corresponding period last year. Excluding the currency conversion effect, residential lumber sales increased \$84 million, or 33%, driven by the exceptional rise in the market price of lumber. This increase was partially offset by lower sales volumes attributable to softening consumer demand.

- **Industrial products (4% of Q2-21 sales):** Industrial product sales were \$36 million, compared to sales of \$33 million in the second quarter last year, largely due to more timber and piling projects, offset in part by lower project-related bridge and crossing sales.

Logs and lumber:

- **Logs and lumber (9% of Q2-21 sales):** Sales in the logs and lumber product category were \$85 million, up over three-fold compared to \$23 million in the corresponding period last year. The exceptional increase is due to the rise in the market price of lumber during the quarter.

The strong sales growth led to an increase in gross profit, which grew 50% to \$197 million, compared to the prior year period, while operating income was \$161 million, or 17.8% of sales, compared with \$101 million, or 13.2% of sales last year. EBITDA rose to \$180 million, up 50%, compared to \$120 million reported in the second quarter of 2020. The increase was primarily driven by the rise in sales prices for residential lumber, which exceeded the higher cost of lumber, improved pricing and volume gains for utility poles, partially offset by lower residential lumber demand.

Net income for the second quarter of 2021 was \$115 million, or \$1.76 per share, compared to net income of \$69 million, or \$1.02 per share, in the corresponding period of 2020.

SIX-MONTH RESULTS

For the first six months of 2021, sales amounted to \$1.53 billion, versus \$1.28 billion for the corresponding period last year. Excluding the negative impact of the currency conversion of \$86 million, pressure-treated wood sales rose by \$238 million, or 19%, and logs and lumber sales grew by \$100 million. The year-over-year sales growth in pressure-treated wood stems from the significant rise in the market prices of lumber offset in part by a decrease in residential lumber volumes. Sales also grew due to the increased demand, upward pricing adjustments and an improved sales mix for utility poles, as well as, higher volumes for railway ties which outweighed the pricing pressures for the non-Class 1 business. The exceptional increase in logs and lumber sales stems from the unprecedented increase in market prices of lumber.

The improvement in sales led to an increase in gross profit, which grew 44% to \$309 million, compared to the prior year period. Operating income was \$243 million, or 15.9% of sales, compared with \$146 million, or 11.4% of sales last year. EBITDA rose to \$279 million, up 52%, compared to \$183 million reported in the prior year period, reflecting an EBITDA margin of 18.3%. Net income totaled \$171 million, or \$2.61 per share, versus \$97 million, or \$1.43 per share last year.

LIQUIDITY AND CAPITAL RESOURCES

During the second quarter ended June 30, 2021, Stella-Jones used the cash generated from operations of \$173 million to invest in capital expenditures, reduce its indebtedness, and return capital to shareholders with dividends of \$24 million and share repurchases of \$14 million.

In April 2021, the Company entered into a credit agreement pursuant to which senior unsecured credit facilities of up to US\$350 million were made available by a syndicate of lenders within the U.S. farm credit system, including a term loan facility of up to US\$250 million and a revolving credit facility of US\$100 million.

During the quarter, the Company repaid in full its short-term indebtedness and increased its long-term debt by \$26 million. The Company's long-term debt, including the current portion, stood at \$682 million as at June 30, 2021 and the net debt-to-trailing 12-month EBITDA ratio was 1.7x.

Subsequent to quarter-end, the Company obtained a one-year extension of its unsecured syndicated revolving credit facility to February 27, 2026.

NORMAL COURSE ISSUER BID

In the three-month period ended June 30, 2021, the Company repurchased 296,307 common shares for cancellation in consideration of \$14 million under its Normal Course Issuer Bid ("NCIB"). For the six-month period ended June 30, 2021, the Company repurchased 1,097,568 common shares for cancellation in consideration of \$51 million. Since the beginning of the NCIB on August 10, 2020, the Company repurchased 2,429,023 common shares for cancellation in consideration of \$111 million. As at June 30, 2021, the Company had unsettled transactions to repurchase 33,549 common shares for a cash consideration of one million dollars.

Under its NCIB, as amended effective March 15, 2021, the Company may repurchase for cancellation a total of 3,500,000 common shares during the 12-month period commencing August 10, 2020 and ending August 9, 2021.

QUARTERLY DIVIDEND

On August 2, 2021 the Board of Directors declared a quarterly dividend of \$0.18 per common share payable on September 17, 2021 to shareholders of record at the close of business on September 1, 2021. This dividend is designated to be an eligible dividend.

UPDATED OUTLOOK

The Company has revised its full-year financial forecast to reflect the softening of residential lumber demand in the second half of 2021. Stella-Jones continues to foresee solid EBITDA growth in 2021 compared to 2020 but expects EBITDA to be in the range of \$410 to \$440 million, compared to the previously disclosed guidance of \$450 to \$480 million. The margin expansion realized in the first half of 2021 is projected to offset the margin compression expected from declining market prices of lumber until the Company averages down its higher cost of inventory. As a result, the Company anticipates EBITDA margin as a percentage of sales for 2021 to remain comparable to 2020.

Excluding the impact of the currency conversion, the Company is projecting sales growth in the low-to-high teens for 2021 compared to 2020, down from the projected increase of 15% to low 20% previously disclosed. The decrease in the sales growth projection largely stems from the expected slowdown in consumer demand for residential lumber. Residential lumber sales are expected to increase 15% to 20% compared to 2020, down from the previously disclosed forecasted increase of 45% to 65%. While the sales growth forecast for utility poles remains unchanged with a high-single digit increase compared to 2020, railway ties and industrial products sales are projected to increase in the low-single digit range. For railway ties, the current pricing headwinds are expected to ease by the end of the year and the Company believes it will continue to benefit from increased maintenance activity.

This updated guidance anticipates a reduction of approximately \$130 million in sales from the depreciation of the value of the U.S. dollar relative to the Canadian dollar to C\$1.25 per U.S. dollar.

The Company's financial guidance is based on its current outlook for 2021 and takes into account a number of economic and market assumptions. Please refer to the Company's Management's Discussion and Analysis for a complete list of assumptions.

CONFERENCE CALL

Stella-Jones will hold a conference call to discuss these results on August 3, 2021, at 10:00 a.m. Eastern Daylight Time. Interested parties can join the call by dialing 1-647-362-9671 (Toronto or overseas) or 1-800-599-2055 (elsewhere in North America). Parties unable to call in at this time may access a recording by calling 1-800-770-2030 and entering the passcode 4899896. This recording will be available on Tuesday, August 3, 2021 as of 1:00 p.m. Eastern Daylight Time until 11:59 p.m. Eastern Daylight Time on Tuesday, August 10, 2021.

NON-IFRS FINANCIAL MEASURES

Gross profit, gross profit margin, EBITDA (operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets), EBITDA margin, operating income margin, net debt and net 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 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 electrical utilities and telecommunication companies with utility poles, and the continent's railroad operators with railway ties and timbers. 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, general economic and business conditions (including the impact of the coronavirus pandemic), evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, changes in foreign currency rates, and the ability of the Company to raise capital. As a result, readers are advised that actual results may differ from expected results. Unless required to do so under applicable securities legislation, the Company does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes after the date hereof.

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Note to readers: Condensed interim unaudited consolidated financial statements for the second quarter ended June 30, 2021 as well as management's discussion and analysis are available on Stella-Jones' website at www.stella-jones.com.

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