

Mercer International Inc.

Transforming biomass into bioproducts for a more sustainable world

Q2 2023 Earnings
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Forward-looking Statements



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Q2 2023 Financial and Operating Highlights

Weak economic growth negatively impacted pulp prices

Strong Q2 sales volumes driven by opportunistic buying by customers



EBITDA negatively impacted by inventory writedown

- Adjusted EBITDA -\$17M after accounting for \$51M non-cash inventory impairment

Weaker pulp prices due to economic uncertainty

- Decline of NBSK, NBHK prices in all markets
- NBSK and NBHK gap widened in China due to new eucalyptus hardwood capacity from South America
- \$51M non-cash inventory write-down of pulp and fibre inventory, primarily related to hardwood



Steady operations amid increased scheduled downtime

- 60 days of scheduled downtime in Q2 vs. 10 days in Q1
- After adjusting for scheduled downtime Q2 pulp production +19,000 tonnes vs. Q1



Q2 2023 Financial and Operating Highlights (cont.)

Lumber prices pushed up by steady demand in both the U.S and Europe



Lumber prices saw modest upward momentum

- Lumber prices improved modestly in both the U.S. and European markets
- Lumber production, sales volumes negatively impacted by minor production upsets early in quarter

Mass timber business ramping up with growing order book



Electricity sales volumes driven by strong production

- Electricity sales increased by +12 GWh vs. Q1
- German pricing ~\$106/MWh due to reduced energy supply concerns in Europe



Growing order book for our mass timber business

- Operations continue to ramp up with Q2 revenues more than double Q1

Q2 2023 Financial and Operating Highlights (cont.)

Cash usage in quarter primarily for strategic acquisition of CLT and glulam assets

Working capital management and strong pulp sales volumes offset cash impact of negative Q2 EBITDA

Dividend of \$0.075 per share



Cash and liquidity, capital allocation

- Increased cash usage in Q2 vs. Q1 largely attributable to acquisition of Structurlam assets for ~\$82M
- Capital spending of ~\$39M
- 2023 expected capital spending to be ~\$130M
- \$213M cash at the end of the quarter; total liquidity of ~\$446M

Q2 2023 Overview

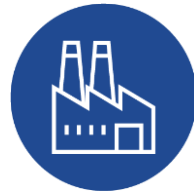
Pulp prices declined due to slower than expected economic recovery in China, large producer inventories and new eucalyptus supply from South America

Curtailments, mill closures to rebalance supply/demand fundamentals



Compounding effects pushed down pulp prices

- High producer inventories
- Weaker than expected economic recovery in China
- European demand still burdened by Ukraine War
- Market continuing to digest new eucalyptus hardwood supply from South America



Continued pressure on pulp pricing

- Within cyclical trough of pulp market
- Hardwood and softwood prices in China hit the floor in Q2; softwood expected to meet floor price in Q3 in Europe



Tightening softwood pulp supply

- Producer curtailments, port strike in BC and Canadian forest fires expected to create supply tension

Q2 2023 Overview (cont.)

Disruptions from BC port strike created logistical challenges for Celgar mill

Strategic responses to market uncertainty

Efficient mill operations minimized the impact of scheduled downtime on production levels



Celgar curtailment due to BC port strike

- 30-day temporary curtailment in August
- Inventory backlog, logistical issues expected to be cleared by end of curtailment



Proactive measures amid uncertain economic conditions

- Planned capex reduced by ~40%
- Aggressive inventory reduction and continued cost-cutting measures implemented company-wide.



Strong mill performance and cost improvements

- Smooth mill operations in the quarter with minor production impact due to downtime
- Modest decrease in fiber and chemical costs
- Scheduled maintenance downtime in Q3 for Rosenthal Rosenthal and in Q4 for Stendal and Celgar

Q2 2023 Overview (cont.)

Flexibility of sawmill operations allows for strategic alignment of lumber product mix and customers, to market conditions

Bolstered mass timber portfolio and expanded market presence with Structurlam acquisition



Lumber seeing some upward movement

- Partial recovery of lumber prices, despite high interest rate environment
- Supply/demand fundamentals to put positive pressure on mid-term



Torgau integration progressing well

- Strong heating pellet prices mitigating weak shipping pallet markets
- Expect Torgau to add significant shareholder value following the recovery of the European market



Structurlam acquisition escalated customer interest

- Currently hold ~35% of North American mass timber production capacity
- Geographic footprint allows for competitive access across North America

Looking Forward

Fibre costs expected to decline over H2

2023 projects focus on expanding alternatives which displace carbon-intensive products

Growth will be focused on low carbon products that are part of the climate change solution



Downward pressure on pulpwood prices, in all markets

- Foresee modest decline in fibre costs for Q3; slightly counteracted by increased demand in the energy market



Advancing bioproducts: Lignin extraction pilot plant

- Key step towards lignin commercialization
- Sustainable alternative to fossil fuel-based products
- Aligns with strategy to expand into green chemicals

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