

Mercer International Inc.

Transforming biomass into bioproducts for a more sustainable world

Q4 2023 Earnings Call

February 16, 2024

Juan Carlos Bueno – President & CEO

Richard Short – CFO, Executive VP & Secretary



Forward-looking Statements



The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements.

Certain information included in this presentation contains statements that are forward-looking, such as statements relating to results of operations and financial conditions, market expectations and business development activities, as well as capital spending and financing sources.

Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ materially from those expressed in any forward-looking statements made by or on behalf of Mercer.

For more information regarding these risks and uncertainties, review Mercer’s filings with the United States Securities and Exchange Commission.

Unless required by law, we do not assume any obligation to update forward-looking statements based on unanticipated events or changed expectations.

Financial Results Overview

EBITDA Slightly Down vs. Q3

<i>EBITDA (US\$ millions)</i>	2023 Full Year	Q3 2023	Q4 2023	Change (+/-)
Pulp Segment	\$66	\$49	\$32	(\$17)
Solid Wood Segment	(\$30)	(\$7)	(\$6)	(\$2)
Corporate & Other	(\$18)	(\$4)	(\$5)	(\$1)
Operating EBITDA⁽¹⁾	\$17	\$38	\$21	(\$16)






Highlights

- The quarter-over-quarter decrease in EBITDA was driven by the sale of previously impaired inventory and more days of planned downtime
- Pulp sales realizations and fibre costs trended positively, partially offsetting the negative impact of the above
- 2023 was overall a challenging year, driven by weaker pulp and lumber markets, lower energy prices, and higher fibre costs

1) Operating EBITDA is a non-GAAP measure. For a Reconciliation of Net Income (Loss) to Operating EBITDA, refer to slide 17

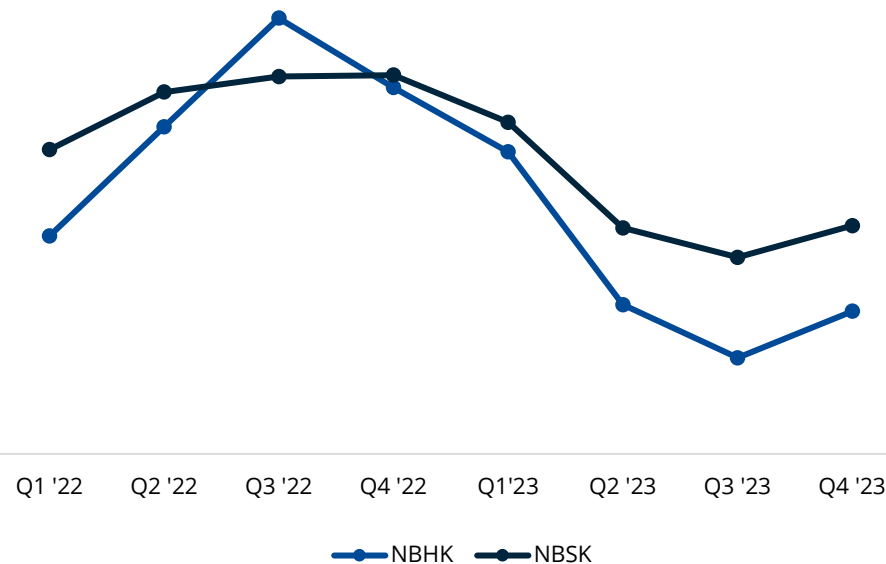
Pulp Prices

Pricing Overview

Region	Q3 2023	Q4 2023
NBSK List Price (US\$ / tonne)		
 China (net)	\$680	\$748
 Europe	\$1,160	\$1,245
NBHK List Price (US\$ / tonne)		
 Domestic	\$1,023	\$1,083
 China (net)	\$530	\$643
NBSK / NBHK Price Gap (US\$ / tonne)		
 China	\$150	\$105

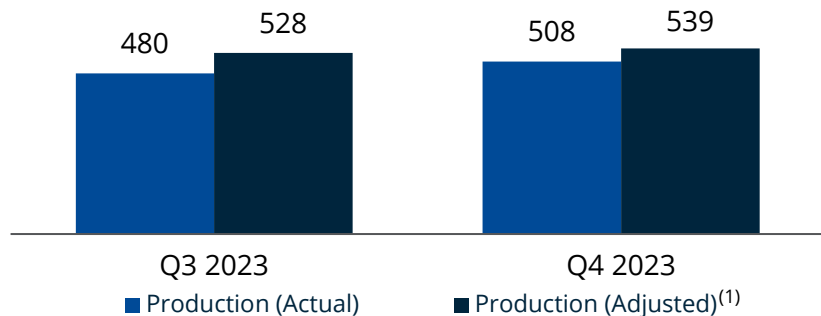
NBSK and NBHK Bottomed in Q3 2023

Realized Pulp Price (US\$ / tonne)



Key Performance Indicators

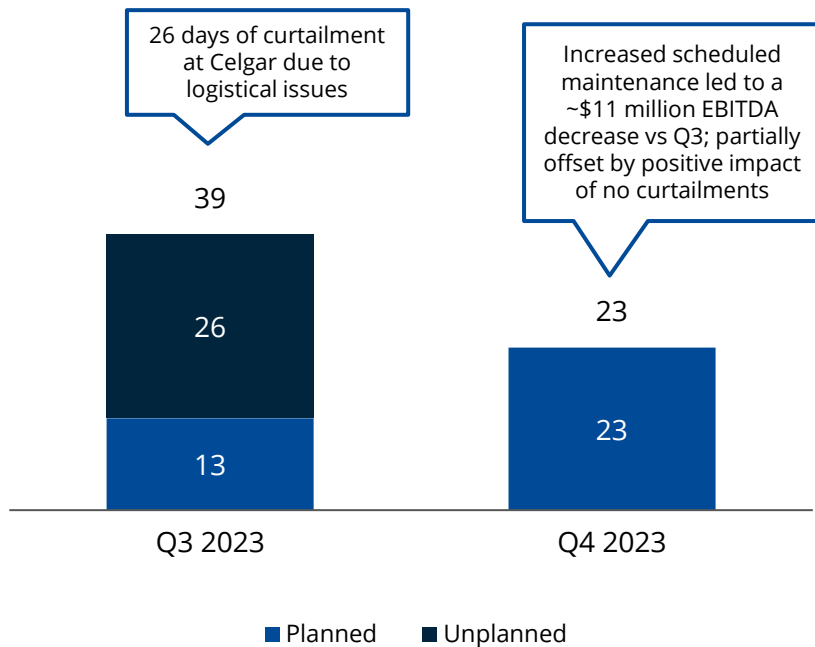
Production Volume (000s tonnes)



Sales Volume (000s tonnes)



Mill Downtime (Days)

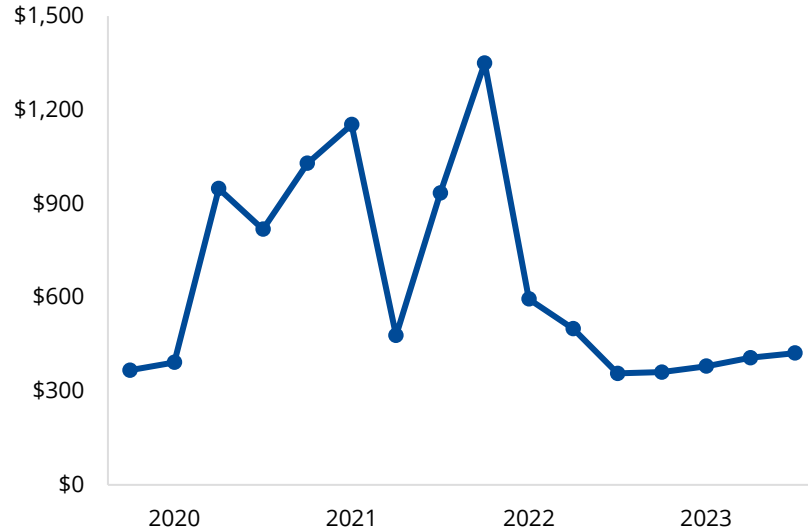


1) Adjusted production adds back lost tonnes from planned shutdowns, curtailments, etc.

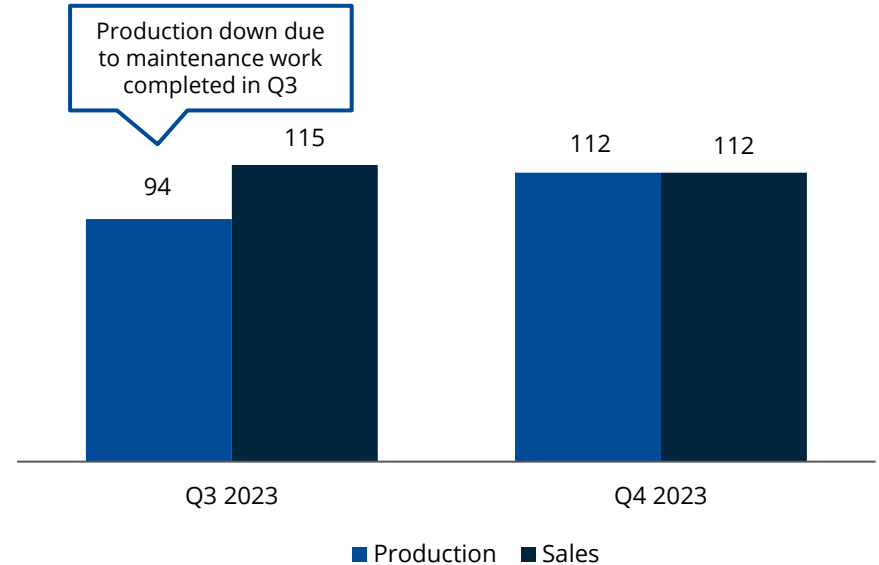
Lumber Overview

Benchmark Lumber Price

Random Lengths WSPF 2&btr 2x4 (US\$ / mfbm)

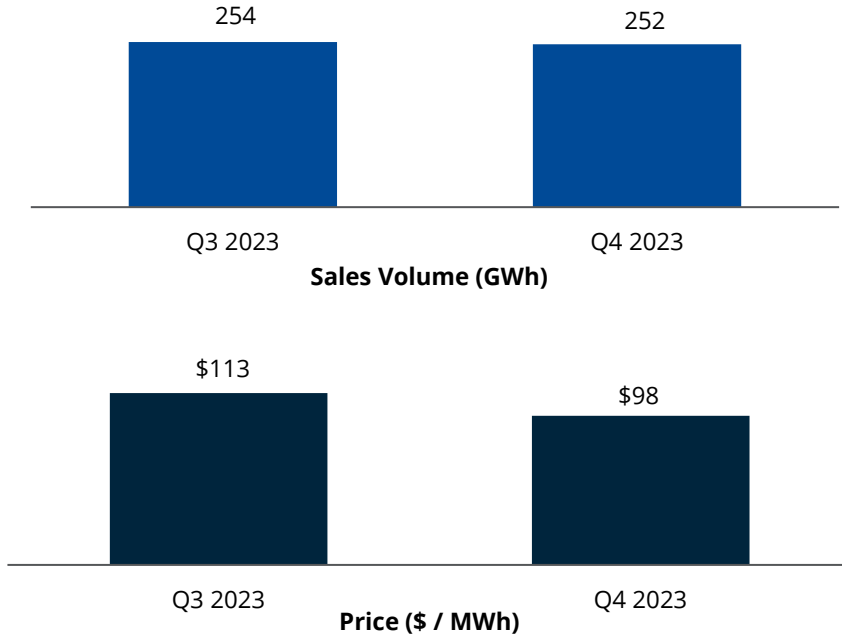


Lumber Operations (mmfbm)

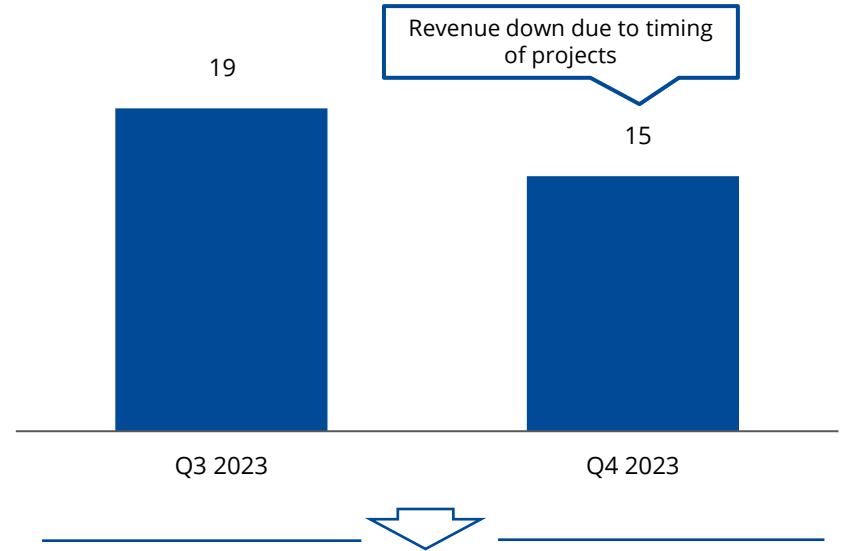


Electricity and Mass Timber

Electricity



Mass Timber Revenue (US\$mm)



MMT has a ~\$100 million order book we expect to fulfill over coming months

Financial Position

Summary

US\$mm unless otherwise stated

Measure	2023 Full Year	Q3 2023	Q4 2023	Change (+/-)
Net Income (Loss)	(\$242)	(\$26)	(\$87)	(\$61)
Earnings per Share	(\$3.65) / share	(\$0.39) / share	(\$1.31) / share	(\$0.92) / share
Cash Generated (Used)	(\$40)	\$130⁽¹⁾	(\$30)	(\$160)⁽²⁾
Liquidity Position	\$610	\$648	\$610	(\$38)
Cash	\$314	\$344	\$314	(\$30)
Unwithdrawn Revolvers	\$296	\$305	\$296	(\$9)
Capital Expenditure	\$136	\$37	\$26	(\$11)
Dividend	n/a	7.5¢ / share	7.5¢ / share	- / share

Capital Optimization

- Initiated sale process of sandalwood business; resulted in a ~\$34 million non-cash impairment charge affecting net income
- Improved cash usage from prudent spending on capital projects and smaller increase in working capital
- 2024 capex spend currently projected between \$75 and \$100 million as cash preservation efforts continue

1) Net cash consumption was (\$70 million) after adjusting for the \$200 million senior note offering
 2) Cash consumption improved by +\$40 million after adjusting for the \$200 million senior note offering

Performance Recap and Outlook

Performance Drivers

+ Positive

- Improved pulp pricing in Q4
- Modest contribution from mass timber business, which generated positive EBITDA
- All mills demonstrated high operating efficiency

- Negative

- Increased maintenance downtime vs. Q3
- European lumber market momentum took a step back following Q3 gains

Capital Expenditure Outlook

- Uncertain market outlook resulting in continued tight handle on capex
- Targeting between \$75 to \$100 million maintenance capex in 2024
- Ongoing monitoring may potentially greenlight more high-return projects

Pulp Markets



Prices and Supply

- Seeing upward pricing pressure in Europe although markets remain weak
- Lunar New Year holiday in China expectedly dampened buying activity, postponing price rebounds
- ~1 million tonnes of softwood supply has been removed over recent years, putting upward pressure on prices



Demand

- Demand in Europe and China remains weak and continues to favour buyers
- European producers running at reduced rates due to effects of a weak European economy
- Chinese government providing economic stimulus, but weak economic growth continues

Looking forward, pulp prices are expected to slowly increase in the face of reduced supply globally

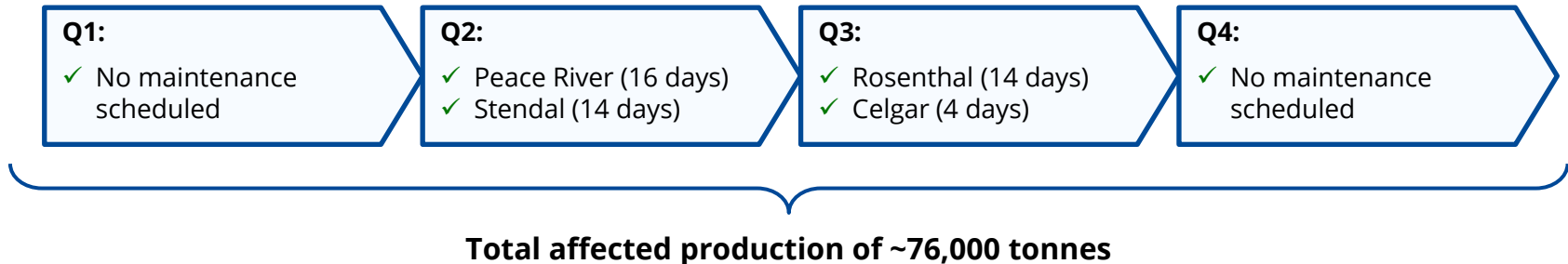
Pulp Operations

Past Quarter: Q4 2023

- Mills ran efficiently this quarter, but more scheduled downtime due vs. Q3 (23 days vs. 13 days)
- No unplanned downtime / curtailments in Q4 compared to Q3

Looking Ahead: 2024

- A normal major maintenance year is expected with Celgar moving to an 18-month major maintenance schedule
- The expected maintenance schedule is as follows:



Lumber Markets

- Q4 2023 results reflect improved lumber and mass timber results
- High interest rates continue to weigh on housing starts, but improvements expected as the spring building season begins

Mid-Term Drivers of Positive Supply-Demand Dynamics



**Low Lumber
Channel
Inventories**



**Sawmill
Curtailments**



**Low Housing
Stock**



**Recent Canadian
Forest Fires**



**Constructive
Homeowner
Demographics**

We will continue optimizing our mix of lumber products and customers to current market conditions

Growing Spectrum of Products

Pallets & Pellets

- The integration of Torgau continues to progress well, but shipping pallet markets remain weak
- Warm winter weather reduced demand and price of pellets in Q4
- Pallet prices expected to normalize once European economy shows signs of recovery

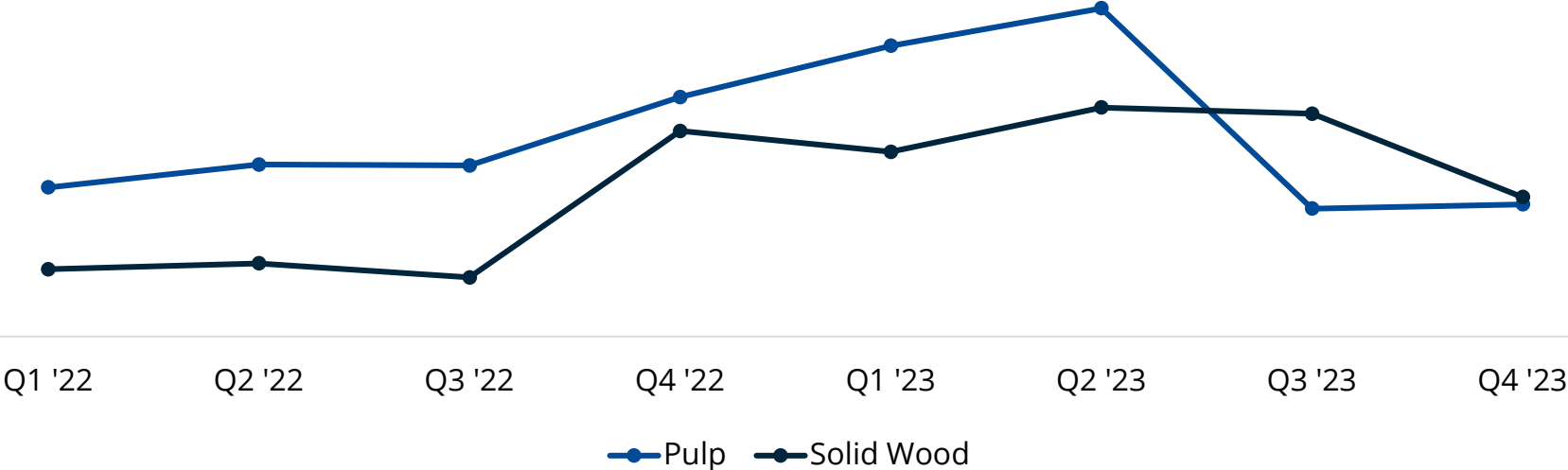
Mass Timber

- With the integration of Structurlam's assets, we now hold ~35% of North American mass timber production capacity
- Strong customer interest has resulted in a \$100 million order file at the end of 2023
- Contributed modest positive EBITDA in Q4 2023; expected to have a meaningful EBITDA contribution in 2024

Fibre Costs

Fibre Costs Constant for Pulp; Down for Lumber

Per Unit Fibre Costs



Bioproducts for a More Sustainable World

Lignin Extraction Plant

- New lignin extraction plant at Rosenthal continues to ramp-up as planned
- Aligned with strategy to expand into green chemicals and other circular economy-compatible products
- Reinforces commitment to 2030 carbon reduction targets



Sustainable Fuel Substitutes

- ✓ Potential demand is very significant
- ✓ Potential to be transformative for the wood products industry

We believe products like lignin, mass timber, green energy, lumber, and pulp will play increasingly important roles in displacing carbon-intensive products

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Reconciling Net Income (Loss) to EBITDA

Consolidated (US\$ millions)		Q3 2023		Q4 2023	
Net Income (Loss) Attributable to Common Shareholders		(\$26.0)		(\$87.2)	
Income tax provision (recovery)		4.0		1.1	
Interest expense		21.9		27.2	
Other income		(3.3)		2.5	
Operating income (loss)		(3.4)		(56.4)	
Add: Depreciation and amortization		41.0		43.8	
Add: Impairment on Assets Held for Sale		-		33.7	
Operating EBITDA		\$37.5		\$21.1	
Segmented (US\$ millions)		Q3 2023		Q4 2023	
		Pulp	Solid Wood	Pulp	Solid Wood
Operating income (loss)		\$21.2	(\$19.7)	\$1.2	(\$18.4)
Add: Depreciation and amortization		28.2	12.5	30.8	12.8
Operating EBITDA		\$49.4	(\$7.2)	\$32.0	(\$5.6)

Note: See next slide for additional disclosures

Note: The above reconciles net income (loss) to EBITDA. Some numbers may not add due to rounding

Reconciling Net Income (Loss) to EBITDA

Note: For other reconciliations of Net Income (Loss) to Operating EBITDA in periods not shown, please refer to that period's respective Form 10-Q or 10-K, which can be found on our website (www.mercerint.com)

Operating EBITDA is defined as operating income (loss) plus depreciation and amortization and non-recurring capital asset impairment charges. Operating EBITDA Margin is defined as Operating EBITDA divided by revenue. Management uses Operating EBITDA and Operating EBITDA Margin as benchmark measurements of its own operating results, and as benchmarks relative to its competitors. Management considers these measures to be a meaningful supplement to operating income (loss) as a performance measure primarily because depreciation expense and non-recurring capital asset impairment charges are not an actual cash cost, and depreciation expense varies widely from company to company in a manner that management considers largely independent of the underlying cost efficiency of their operating facilities. In addition, we believe Operating EBITDA and Operating EBITDA Margin is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

Operating EBITDA does not reflect the impact of a number of items that affect our net income (loss) attributable to common shareholders, including financing costs and the effect of derivative instruments. Operating EBITDA is not a measure of financial performance under the accounting principles generally accepted in the United States of America ("GAAP"), and should not be considered as an alternative to net income (loss) or income (loss) from operations as a measure of performance, nor as an alternative to net cash from operating activities as a measure of liquidity.

Operating EBITDA and Operating EBITDA Margin have significant limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Operating EBITDA should only be considered as a supplemental performance measure and should not be considered as a measure of liquidity or cash available to us to invest in the growth of our business. Because all companies do not calculate Operating EBITDA in the same manner, Operating EBITDA and Operating EBITDA Margin as calculated by us may differ from Operating EBITDA or EBITDA and Operating EBITDA Margin, or EBITDA Margin as calculated by other companies. We compensate for these limitations by using Operating EBITDA and Operating EBITDA Margin as supplemental measures of our performance and by relying primarily on our GAAP financial statements.