

# **Mercer International Inc.**

Transforming biomass into bioproducts for a more sustainable world

## **Q3 2024 Earnings Call**

**November 1, 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 Increased Quarter-Over-Quarter

<i>EBITDA (US\$ millions)</i>	Q2 2024	Q3 2024	Change (+/-)
Pulp Segment	\$32	\$55	\$23
Solid Wood Segment	\$3	(\$2)	(\$5)
Corporate & Other	(\$4)	(\$2)	\$2
<b>Operating EBITDA<sup>(1)</sup></b>	<b>\$30</b>	<b>\$50</b>	<b>\$20</b>

## Highlights







- Quarter-over-quarter EBITDA increase driven by fewer days of planned maintenance downtime
- Unrelated events reduced Q3 pulp production
- Unfavorable FX movements and weaker hardwood pulp prices

Note: Due to rounding, numbers presented in this presentation may not add up precisely to totals and percentages may not precisely reflect the absolute figure

1) Operating EBITDA is a non-GAAP measure. For a reconciliation of Net Loss to Operating EBITDA, refer to slide 18

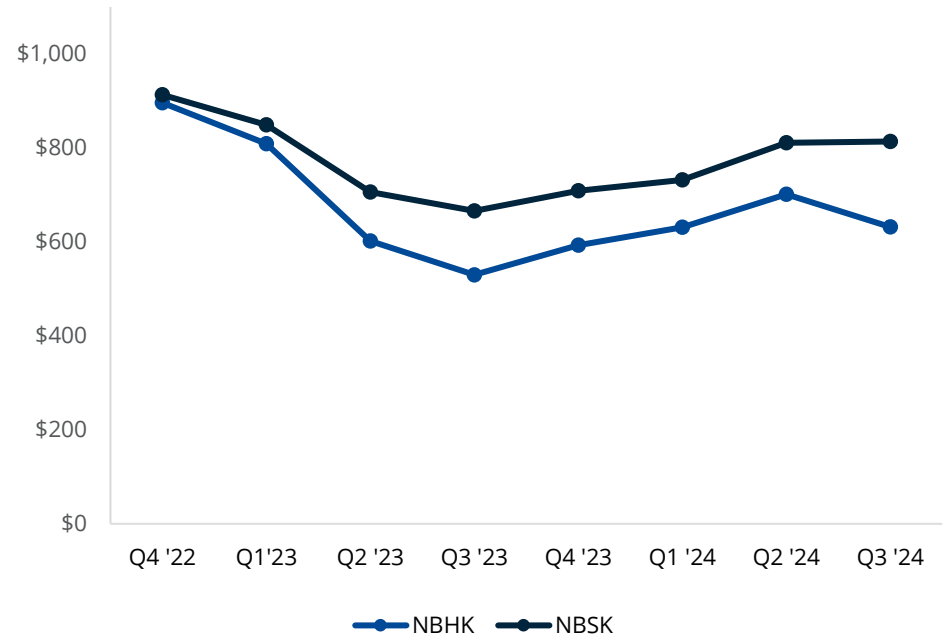
# Pulp Prices

## Pricing Overview

Region	Q2 2024	Q3 2024
<b>NBSK List Price (US\$ / tonne)</b>		
 Domestic	\$1,697	\$1,762
 China (net)	\$811	\$771
 Europe	\$1,602	\$1,573
<b>NBHK List Price (US\$ / tonne)</b>		
 Domestic	\$1,437	\$1,467
 China (net)	\$735	\$635
<b>NBSK / NBHK Price Gap (US\$ / tonne)</b>		
 China	\$76	\$136

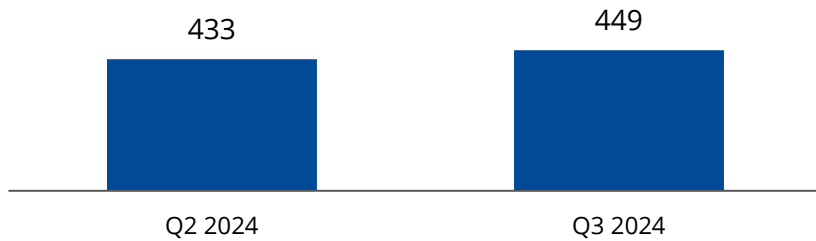
## Robust NBSK Prices Despite Weaker Seasonal Demand

Realized Pulp Price (US\$ / tonne)

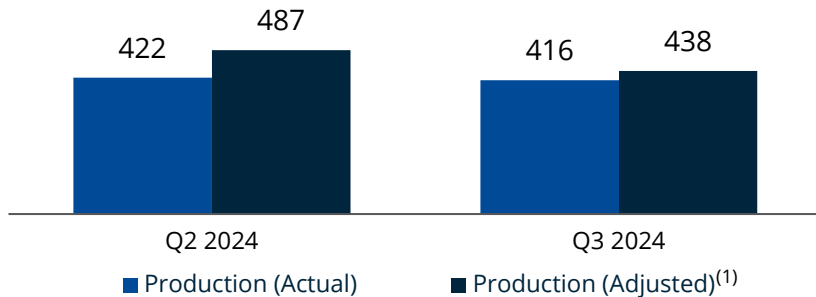


# Key Performance Indicators

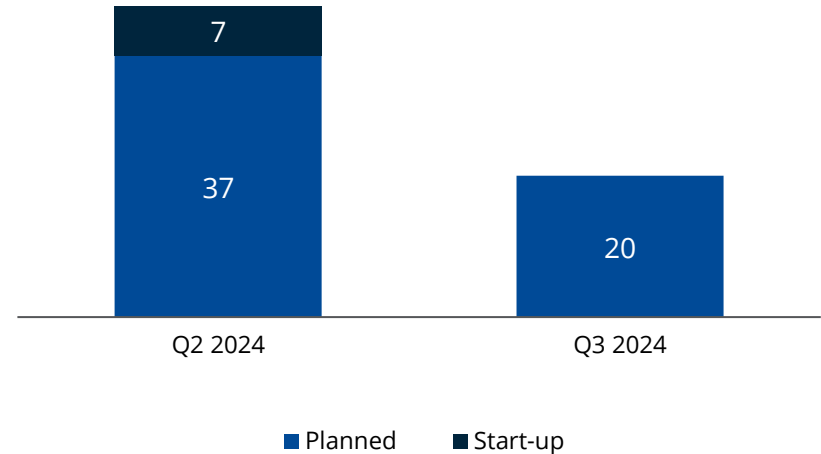
## Sales Volume (000s tonnes)



## Production Volume (000s tonnes)



## Mill Planned Downtime (Days)

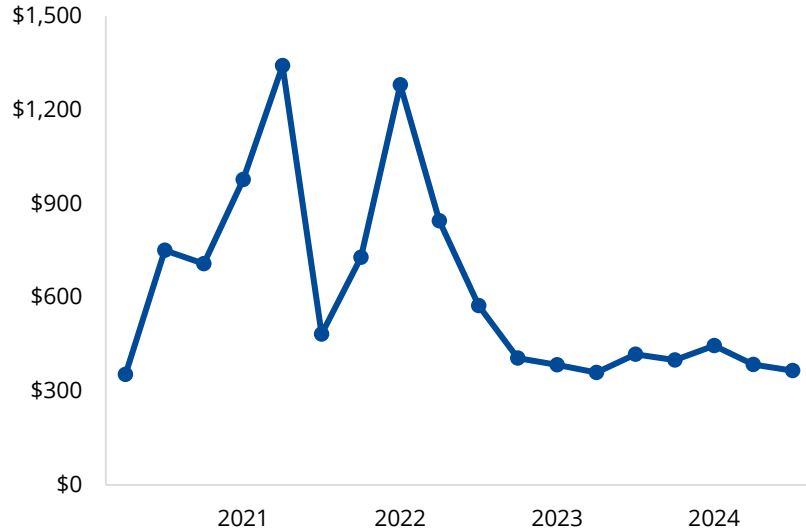


1) Adjusted production adds back lost tonnes from planned downtime

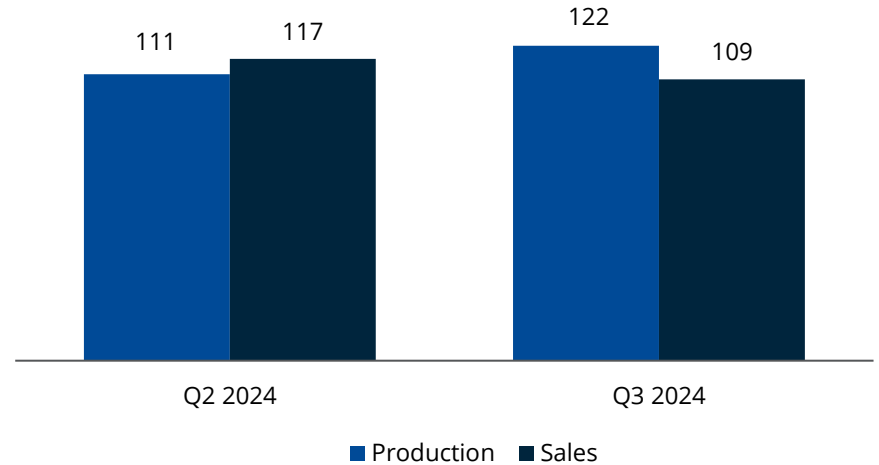
# Lumber Overview

## Benchmark Lumber Price

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

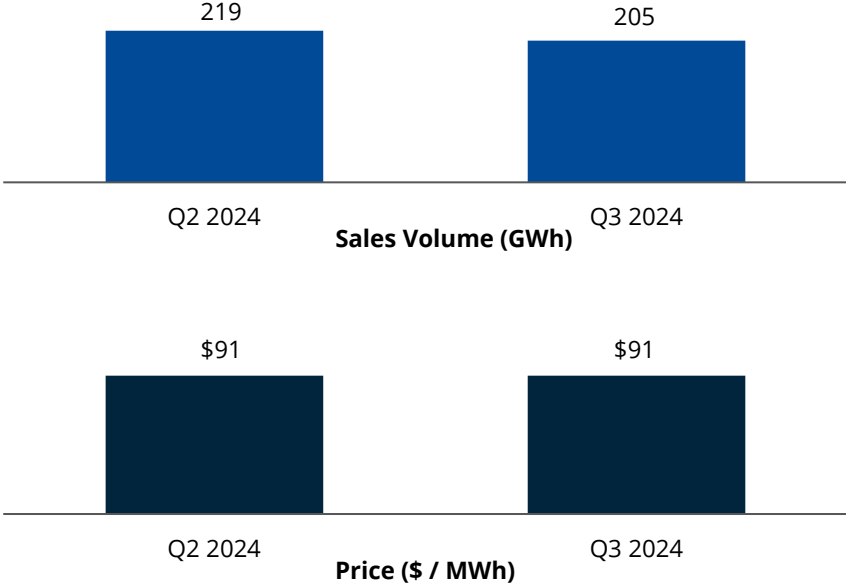


## Lumber Operations (mmfbm)

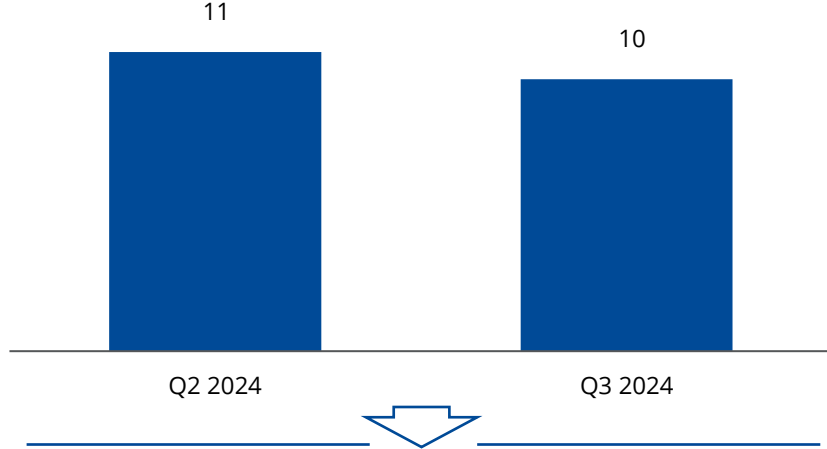


# Electricity and Mass Timber

## Electricity



## Mass Timber Production (000s m<sup>3</sup>)



Strong production supported by completion of two large mass timber projects

# Financial Position

## Summary

*US\$mm unless otherwise stated*

Measure	Q2 2024	Q3 2024	Change (+/-)
<b>Net Loss</b>	<b>(\$68)</b>	<b>(\$18)</b>	<b>\$50</b>
Loss per Share	(\$1.01) / share	(\$0.26) / share	\$0.75 / share
<b>Cash Used</b>	<b>(\$11)</b>	<b>(\$24)</b>	<b>(\$13)</b>
<b>Liquidity Position</b>	<b>\$581</b>	<b>\$554</b>	<b>(\$26)</b>
Cash	\$263	\$239	(\$24)
Unwithdrawn Revolvers	\$317	\$315	(\$2)
<b>Dividend</b>	<b>7.5¢ / share</b>	<b>7.5¢ / share</b>	<b>- / share</b>

## Highlights

- FX negatively impacted Q3 operating income by ~\$10 million compared to Q2
- Refinancing in October reduced the principal balance of senior debt by \$100 million while extending the maturity from 2026 to 2028



# Performance Recap

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## **+** Positive

- Resilient softwood pulp markets in a period of traditionally weaker seasonal demand
- Reduced planned downtime improved EBITDA by ~\$42 million
- Continued strong performance from mass timber segment
- Realized ~\$5 million in synergies from fiber optimization with Torgau and pulp operations – up to \$16 million in annual synergies is achievable

## **-** Negative

- Unplanned and unrelated downtime negatively impacted EBITDA by ~\$20 million
- Decreased pallet profitability due to weak European economy
- Lower hardwood pulp prices, modest hardwood inventory impairment

# Capital Allocation

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## Refinancing

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- Completed refinancing of \$300 million 2026 Senior Notes in October 2024 using cash on hand and proceeds from issuing \$200 million of additional 2028 Senior notes
  - Overall reduction in principal balance of Senior Notes by \$100 million
- Debt reduction will be an important focus of our capital allocation strategy going forward

## Capital Expenditure Summary

- Total Q3 capex of ~\$27 million
- 2024 capex budget of \$95 to \$120 million; 2025 capex expected to be within a similar range
- Continued prioritization of maintenance of business, environmental and safety capex

# Pulp Markets

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## NBSK

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- Permanent closures of NBSK mills, along with temporary curtailments due to fiber shortages are all creating tightness in NBSK markets



## NBHK

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- Weaker prices as additional capacity that came online in 2024 is being absorbed in the market

**Significant differences in supply-demand fundamentals between softwood and hardwood pulp will push the price gap to levels beyond historical norms**

# Pulp Operations

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## Past Quarter: Q3 2024

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- Lower production vs. Q2 as unplanned downtime in Q3 more than offset planned downtime in Q2
- Stendal unplanned downtime was a result of supplier delays in installation of new equipment
- Peace River unplanned downtime was the result of operator error
- Determining the root causes of these incidents to learn how to avoid them in the future

## Looking Ahead

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- Celgar has moved to an 18-month major planned maintenance schedule
- The expected maintenance schedule for the remainder of the year is as follows:



# Lumber Markets

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- European lumber market was up slightly in Q3 while US market weakened
- High interest rates continue to weigh on housing starts and construction around the world
- US prices in Q4 are expected to moderately improve due to housing starts and announced lumber curtailments; some modest upward pricing pressure also expected in Europe

## Mid-Term Drivers of Positive Supply-Demand Dynamics

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**Low Lumber  
Inventories**



**Sawmill  
Curtailments**



**Low Housing  
Stock**



**Shortages from  
Canadian wildfires**



**Constructive  
Homeowner  
Demographics**

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

# Growing Spectrum of Products

## Pallets & Pellets

- Shipping pallet markets remain weak due to overhang of European economy; prices expect to improve with signs of economic recovery (current price of \$11 vs. \$14 historically)
- Higher heating pellet prices in Q3 due to expected seasonality; expected demand and price increases in Q4 as customers build winter stocks

## Mass Timber

- Strong customer interest; current order file is ~\$33 million
- Economic stability will meaningfully improve short-term demand for mass timber
- North American mass timber demand expected to grow in popularity at a similar pace to Europe due to environmental, economic and aesthetic benefits



~35% of North American panel capacity



Broad range of product offerings



Large geographic footprint



**Competitive**  
across entire  
**North American Market**

# High-Return Capex Projects

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Strategic and high-return capex projects at our Torgau and Spokane mills have been restarted



- Project will increase lumber production capacity and volume of dimensional lumber available for the US market by ~240,000 m<sup>3</sup> annually
- Part of original investment strategy to increase the mill's value-added product mix and maximize potential synergies

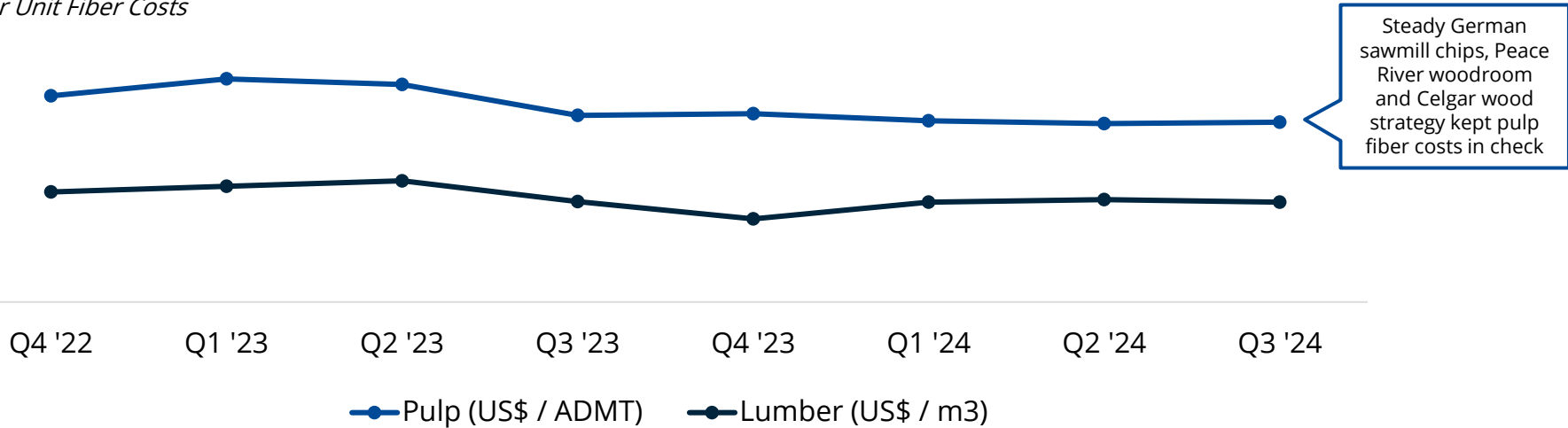


- Project focuses on wood infeed and sorting process at Spokane to allow utilization of lower-cost feedstock for high-quality lamstock
- Will optimize lumber procurement, significantly reducing the mill's fiber cost
- Mid-2025 targeted completion date

# Fiber Costs

## Fiber Costs Remained Flat for both Pulp and Lumber

Per Unit Fiber Costs



Looking ahead, fiber costs are expected to remain stable for pulp businesses with a slight increase for solid wood businesses in Q4



# Bioproducts for a More Sustainable World



## Lignin Extraction Plant

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

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

# Contact Information

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# Reconciling Net Loss to Operating EBITDA

Consolidated (US\$ millions)	Q2 2024		Q3 2024	
Net loss	(\$67.6)		(\$17.6)	
Income tax provision (recovery)	1.3		(\$0.1)	
Interest expense	26.8		26.4	
Other expense (income)	(4.3)		0.1	
<b>Operating income (loss)</b>	<b>(43.8)</b>		<b>8.8</b>	
Add: Depreciation and amortization	39.9		41.6	
Add: Goodwill impairment	34.3		-	
<b>Operating EBITDA</b>	<b>30.4</b>		<b>50.5</b>	
Segmented (US\$ millions) <sup>(1)</sup>	Q2 2024		Q3 2024	
	Pulp	Solid Wood	Pulp	Solid Wood
<b>Operating income (loss)</b>	<b>\$4.5</b>	<b>(\$43.7)</b>	<b>\$26.0</b>	<b>(\$14.7)</b>
Add: Depreciation and amortization	27.2	12.5	28.7	12.7
Add: Goodwill impairment	-	34.3	-	-
<b>Operating EBITDA</b>	<b>\$31.7</b>	<b>\$3.1</b>	<b>\$54.6</b>	<b>(\$1.9)</b>

Note: See next slide for additional disclosures

1) Excludes Q2 and Q3 Corporate Segment Operating Loss of \$4.6 and \$2.5 and negative Operating EBITDA of \$4.4 and \$2.3, respectively

# Reconciling Net Loss to Operating EBITDA

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**Note: For other reconciliations of Net 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](http://www.mercerint.com))**

Operating EBITDA is defined as operating income (loss) plus depreciation and amortization and non-recurring capital asset impairment charges. We use Operating EBITDA as a benchmark measurement of our own operating results and as a benchmark relative to our competitors. We consider it 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 actual cash costs, and depreciation expense varies widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of our operating facilities. In addition, we believe Operating EBITDA 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 loss, including financing costs and the effect of derivative instruments. Operating EBITDA is not a measure of financial performance under GAAP, and should not be considered as an alternative to net loss or operating income (loss) as a measure of performance, or as an alternative to net cash from (used in) operating activities as a measure of liquidity. Operating EBITDA is an internal measure and therefore may not be comparable to other companies.

Operating EBITDA has significant limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are that Operating EBITDA does not reflect: (i) our cash expenditures, or future requirements, for capital expenditures or contractual commitments; (ii) changes in, or cash requirements for, working capital needs; (iii) the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our outstanding debt; (iv) the impact of realized or marked to market changes in our derivative positions, which can be substantial; and (v) the impact of non-recurring impairment charges against our investments or assets. Because of these limitations, 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 as calculated by us may differ from Operating EBITDA or EBITDA as calculated by other companies. We compensate for these limitations by using Operating EBITDA as a supplemental measure of our performance and by relying primarily on our GAAP financial statements.