

NORBORD INC.
Q1 2010 CONFERENCE CALL
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CORRECTED TRANSCRIPT

OPERATOR

Good day, everyone and welcome to Norbord Inc.'s 2010 First Quarter Earnings Conference Call. As a reminder, today's call is being recorded and webcast on Norbord's website at www.norbord.com.

Norbord's discussion today may include certain projections and forward-looking statements regarding Norbord's business, future actions and its expected results. These statements are subject to known and unknown risks and future results may differ materially.

For further information on known risks, please see the caution regarding forward-looking information statement in Norbord's March 1, 2010 annual information form and the cautionary statement contained in the forward-looking statements section of Norbord management's discussion and analysis dated April 26, 2010.

And now I will turn the call over to Barrie Shineton, President and Chief Executive Officer. Please go ahead, sir.

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thanks Michelle. Good morning everyone and welcome to Norbord's first quarter conference call. I have Robin Lampard, our CFO and Anita Veel, our Director of Corporate and Regulatory Affairs with me today. I also have Karl Morris, the Managing Director of our European Business here today as well. We held our annual meeting this morning so our prepared remarks today will be brief. The main purpose of the conference call is to make ourselves available to answer your questions.

Before I turn the call over to Robin, I will note that our quarter one results differ from analyst expectations. I recognize that blaming the weather for results variance is not a good practice. I don't accept it from any of our management team, however, the weather did have a very significant impact on our results. It was a very difficult operating quarter for Norbord.

We estimate that weather-related issues in the U.S. South and the UK took about \$10 million off our quarter one EBITDA number, that's \$6 million in North America and another \$4 million in the UK. These issues have eased in March and for the most part are behind us. We have just had a look at our results for April and they are encouraging. EBITDA looks to be coming in at approximately \$17 million for the month. And prices have continued to strengthen through April, which bodes well for us in May and June.

As I said at the annual meeting this morning, the housing recovery is underway. Although in my view, it will be drawn out and unpredictable. The overall trend will still be positive. I'm feeling much better about our business outlook this year.

And with those brief comments, I'll turn things over to Robin.

ROBIN E. LAMPARD, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Thanks, Barrie. Let's start today with the issue that's on everyone's mind, pricing. Benchmark North American North Central OSB prices averaged \$212 in Q1 up \$40 from the prior quarter and \$58 from the same quarter last year. As you know, the Southeast Benchmark is more relevant to Norbord.

Southeast Benchmark prices averaged \$197 in Q1, a \$43 improvement from Q4 and up \$58 from the same quarter last year. Prices have continued to rise so far in the second quarter with random lengths reporting North Central and Southeast prices both at \$385 at the end of last week.

In our view, the higher prices relate to extreme weather in the U.S. South, curtailed capacity, some of which has been announced as permanent, the absolute lack of inventory in the supply chain and a modest improvement in housing demand. The improvement is welcome, but we don't expect prices to remain at these high levels for the rest of the year.

Today's markets are very volatile and demand will respond unpredictably to any uneven housing news. And supply will likely vary as operators of OSB mills adjust production in what we expect will remain a very volatile market for some time.

2010 housing starts forecasts range between 0.6 and 0.7 million. That's almost a 20% improvement from last year. And we've already seen a 17% year-over-year improvement in the March seasonally adjusted rate.

Our North American mills ran at 65% of capacity in the first quarter compared to 60% in the first and fourth quarters of 2009. We curtailed 268 days of production during the quarter. We wanted to run more. Persistent rain across the U.S. South restricted log supply and curtailed operations at several mills. And log shortages also delayed our planned ramp up to full production at other facilities.

These additional unscheduled down days affected both production and sales volume and the curtailment extended our order files even further, exaggerating the impact of this downtime on our financial results. Costs were impacted as the fiber that was available quickly became more expensive and processing the wet wood slowed our manufacturing lines when we could run.

As Barrie said, these issues are now largely behind us. We ramped up our Cordele and Guntown mills back to full production at the end of Q1. And subject to market conditions, we expect to run our North American mills at full capacity in the second quarter, excluding our two mothballed mills. As Barrie said this morning at our AGM, we have no plans to restart Jefferson and Huguley this year.

In the UK, record snowfall resulted in unplanned closures at our mills as log and residual fiber supplies were interrupted. Our panel sales stalled as the snow also shut down construction sites across the UK and do-it-yourself customers were literally housebound.

In this environment, European panel prices rose 7% for OSB, 3% for particleboard and 1% for MDF. Our European mills ran at about 90% of capacity through the first quarter, and subject to market conditions, we expect to run full out through the second quarter.

We generated positive EBITDA of \$9 million in the first quarter of 2010, a \$23 million improvement from Q1 '09 and \$3 million better than last quarter. The improvement was largely

due to higher panel prices. A full EBITDA variance analysis for the quarter can be found in our MD&A.

North American operations generated EBITDA of \$8 million in the first quarter. This is \$20 million better than last year and a \$7 million improvement from Q4. Our North American per unit OSB cash costs increased 4% from Q1 '09 and 10% from Q4 '09. The increase was largely due to lower production volumes and higher wood and resin prices and usages. Most of this was weather related as Barrie highlighted.

European operations generated EBITDA of \$5 million in the first quarter. This is \$2 million lower than Q4 '09. Higher weather-related fiber prices and lower shipment volumes were only partially offset by modestly higher average panel prices. And it was \$4 million better than Q1 '09 due to lower energy prices and overhead cost reductions which more than offset the weather impact on fiber prices.

Barrie did break with tradition and provided our consolidated April EBITDA result at the start of the call. To be clear, we're not forecasting Q2 results, just reporting on April, given the significant upward movement in benchmark OSB prices this month.

When thinking about our April EBITDA, I'll remind you that our mill nets lag benchmark prices when those benchmarks rise as rapidly as they have in the last month and our order files extend out 6 weeks. What I mean is a lot of the OSB we're shipping this week was priced six weeks ago. And costs are correcting from the weather-related spikes seen in Q1, but slowly. Fiber prices remain stubbornly high as our competitors for logs fill up their wood yards. But as Barrie said, Q2 will be much stronger, and we're feeling much better about our business outlook this year.

Turning now to working capital, you'll recall there is seasonality to our working capital. It generally builds in the first quarter and is worked back down through the year. Operating working capital increased \$55 million during the first quarter. The quarter-over-quarter increase is due to a number of factors. Higher accounts receivables due to higher North American OSB prices, higher inventory due to the seasonal build in log inventories at our Northern mills, lower accounts payable due to the timing of bond coupon payments and a decrease in accounts receivable securitization proceeds due to the timing of settlements under that program.

I'll note again this quarter that our accounts receivable metrics remain in line with prior periods and our customers' credit performance through the downturn has been exceptionally clean.

Operating activities generated \$2 million in cash or \$0.05 per share in the first quarter due to positive EBITDA results and the receipt of US\$55 million cash tax refund, which was partially offset by the seasonal increase in operating working capital. As we reported last quarter, the \$55 million cash tax refund relates to the extension of loss carryback periods in U.S. under The Worker Homeownership and Business Assistance Act.

Our capital investment in the quarter was \$1 million. We expect to limit CapEx for 2010 to \$10 million to \$15 million depending on the strength of OSB markets through the year. We finished the quarter with liquidity of \$243 million, net debt to capitalization of 58% versus the 70% bank line covenant and tangible net worth of \$322 million versus the \$250 million bank line covenant.

Before we open the lines for your questions, I'll just touch briefly on Brookfield's secondary offering. Brookfield's investment in Norbord grew well above historic levels following their backstop of our rights offering in 2008. At the time of the secondary offering, Brookfield held

about 73% of Norbord's outstanding shares. They sold 8.7 million shares under the secondary and now hold a 52% interest in Norbord.

Barrie and I also participated in the secondary offering. Barrie sold 300,000 shares and I sold 20,000. We included our shares in this offering in an effort to be transparent by announcing our intentions to the market in advance rather than reporting the transaction on SEDI after the fact. Barrie and I sold our shares for personal financial planning reasons. We both continue to hold options and have significant money invested in shares and DSUs. The details are all found in our proxy circular. Our interests remain very much aligned with the long-term performance of the business.

And finally, I'll note that following our share consolidation and the Brookfield secondary offering, the average daily trading volume in our shares has increased more than 10 times.

With that, I will turn things over to the operator, who will open up the lines for your questions.

Q&A

Operator

[Operator Instructions] Your first question comes from Sean Steuart of TD Newcrest. Please go ahead, sir.

<Q - Sean Steuart>: Thank you. Good afternoon, everyone. A few questions. I guess Robin or Barrie, the \$17 million April EBITDA guidance; just want to understand, does that assume the full 80% operating rate for the month? I know that's the number you gave for the quarter, but is that consistent across the quarter? Are you ramping up to that number?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Sean, I think in the month of April, you would have to consider that we would still be ramping up some of the capacity.

<Q - Sean Steuart>: Okay. Barrie, what would need to happen? You said you wouldn't restart Huguley or Jefferson at any point this year. Are you waiting for a housing start number to reach a target level before you'd look at it? I'm just trying to understand what it would take for you to consider.

<A - J. Barrie Shineton, President and Chief Executive Officer>: Is your question, Sean, what kind of logic would we go through in making that kind of call?

<Q - Sean Steuart>: Yeah.

<A - J. Barrie Shineton, President and Chief Executive Officer>: Well, I think we'd have to see substantially higher housing starts and we'd have to see or believe that the recovery was sustainable and we'd have to have good visibility on where we'd top out. It would be a significant decision for us and we will have to invest some money in either of those mills if we want to bring them back.

<Q - Sean Steuart>: Okay. And then last question just on fiber costs. You touched on the pressure you're seeing. I'm wondering if you can talk a little bit about what's happening in the US South and then also in Europe at this stage and maybe order of magnitude of pressure you're seeing.

<A - J. Barrie Shingleton, President and Chief Executive Officer>: Let me comment on the US South, and if you don't mind I'll flip the European question over to Karl Morris who's sitting here as well today.

In the US South the pressure on prices that I've talked about is almost entirely weather related. And, I mean, the rain was very severe for a prolonged period of time and it simply caught up to us mostly in the month of February where we just couldn't procure logs. Our competitors for small round wood, pulp paper mills, in the vicinity were in exactly the same boat. So the price pressure we're feeling is related to that shortfall of logs that pushed prices up and then has continued – although it is adjusting, but it has continued as all of us try to fill up log yards and sort of get back to normal inventory levels.

Generally, we are not seeing any longer term upward pressure on prices for logs. And in our Georgia mill, log prices are virtually back to where they were last fall.

<Q - Sean Stewart>: Okay.

<A - J. Barrie Shingleton, President and Chief Executive Officer>: And Europe?

<A - Karl Morris>: Yeah, Sean, Karl Morris here from European Operations. I think I'd parallel Barrie's summary there as far as the UK part of our business is concerned. You might remember that the bulk of our operations are in the UK. The principle pressure on pricing there in the short and medium term is certainly related to the weather impact and the fact that we've had to go a lot further to get our wood, and there's a lot of pressure on the people refilling their wood yards. I would say the situation in Europe is slightly different. We saw a much more significant drop-off of pricing as we went into the recession. And we're actually seeing some correction of that as the demand is starting to get a little stronger in Europe and we're seeing that pressure come through on pricing.

<Q - Sean Stewart>: Okay. That's helpful, Karl. Thank you, everyone.

<A - J. Barrie Shingleton, President and Chief Executive Officer>: Thanks, Sean.

Operator

Your next question comes from Richard Skidmore of Goldman Sachs. Please go ahead, sir.

<Q - Richard Skidmore>: Good afternoon. Barrie, maybe you can just talk to your wood yards currently and do you have sufficient wood in the yards or access to the wood to run full in the second quarter. And the second part of that question would, when do you expect to be at sort of full capacity in your wood yards?

<A - J. Barrie Shingleton, President and Chief Executive Officer>: I probably can't technically answer that question, Rick, because I don't have the number in front of me. But generally, our wood yards are recovering slowly, and it's that delicate balance you strike between trying to acquire logs, but bringing the log price down at the same time.

<Q - Richard Skidmore>: Okay. Maybe just a separate question. In terms of the supply chain in OSB, I think Robin mentioned that the inventories in the supply chain were really low in the commentary about pricing. Is the supply chain a bottleneck for you currently, namely, in the downturn did you see any of your distribution outlets go away so that you're having difficulty getting your product to market? So is the distribution a bottleneck or is it just that the industry

hasn't been able to produce enough for the incremental demand pickup and that's why prices have gone up?

<A - J. Barrie Shingleton, President and Chief Executive Officer>: Rick, I'd answer it this way, that for us it hasn't been a bottleneck, but perhaps our distribution channels are a bit unique compared to some of our competitors, I don't know. But we certainly, with the exception of pro-dealers who service the homebuilders directly, we've been able to grow our volumes with the rest of our distribution all the way through this downturn.

<Q - Richard Skidmore>: Okay, great. Thanks.

Operator

Your next question comes from Paul Quinn of RBC Capital Markets. Please go ahead, sir.

<Q - Paul Quinn>: Yes, thanks very much. Couple questions. One, just on this favorite topic of OSB pricing, just trying to understand, what percent of your volume is contracted?

<A - J. Barrie Shingleton, President and Chief Executive Officer>: Can I tell? Am I allowed to say that?

<Q - Paul Quinn>: Inaudible.

<A - J. Barrie Shingleton, President and Chief Executive Officer>: It's well over 50%, Paul.

<Q - Paul Quinn>: Okay. And in terms of when we – coming up with April's \$17 million EBITDA number, should we look at that or try to calculate back a four to six week price before that period to come out with the \$17 million. Is that a right way of looking at it?

<A - J. Barrie Shingleton, President and Chief Executive Officer>: I don't know how you model these kind of things. All I would do is reinforce what Robin tried to say in her comments is that – the OSB price is rising in increments of \$25 or \$30 a week.

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: \$50 last week.

<A - J. Barrie Shingleton, President and Chief Executive Officer>: \$50 last week. And when you consider our order files are out six and seven weeks, it's a very difficult dynamic calculation to try to make. And in our case that was further complicated by the fact that the curtailments we took in January and February actually pushed lower price order files out into those much more robust pricing periods. So it gets a little complicated.

<Q - Paul Quinn>: Okay. So be cautious on that. In terms of the \$10 million sort of hit on weather-related issues, what would that translate back into the cost impact, the sort of the 4% that you mentioned, would that erase that?

<A - J. Barrie Shingleton, President and Chief Executive Officer>: Quarter-over-quarter... Let me answer this way. I think we saw, if I remember the numbers correctly, our cost went up about – manufacturing cost about \$16 on a 7/16th basis. \$10 of that \$16 was weather, \$3 was resin and I think \$3 was an increase in SG&A, but only because we had a reversal in quarter four.

<Q - Paul Quinn>: Okay. And in terms of OSB inventory, are you holding more inventory now or is that minimum levels?

<A - J. Barrie Shineton, President and Chief Executive Officer>: No. I mean, we're being pressed by all of our customers to ship, ship, ship.

<Q - Paul Quinn>: Okay.

<A - J. Barrie Shineton, President and Chief Executive Officer>: Our only issue is in the U.S. South finding trucks to do that. But generally, our inventories are in good shape.

<Q - Paul Quinn>: Okay. And just lastly on Sean's question on capacity restart, I think. Should we look at that as sort of a \$20 million cost to bring back one of those mills between working capital and CapEx?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Paul, I haven't even started thinking about that. It's probably too far in the future yet.

<Q - Paul Quinn>: Okay. Fair enough. Thanks, guys. Best of luck.

<A - J. Barrie Shineton, President and Chief Executive Officer>: Thanks.

Operator

Your next question comes from Pierre Lacroix of Desjardins Securities. Please go ahead, sir. I apologize we appear to have lost that line. We have another question from Richard Skidmore of Goldman Sachs. Please go ahead, sir.

<Q - Richard Skidmore>: Thank you. Barrie, just wanted to follow up a little bit more on what you're seeing in the marketplace and then follow-up with a follow-up question on pricing. With regards to the overall market, can you talk about what you're seeing from a competitive dynamic and specifically how it relates to what you're seeing with the competitors ramping up production to compete for that limited demand that you mentioned?

<A - J. Barrie Shineton, President and Chief Executive Officer>: I'm only comfortable talking about Norbord, Rick.

<Q - Richard Skidmore>: So maybe just help us understand, as you mentioned your customers are saying ship, ship, ship, which would suggest that there's maybe some greater demand pull or is that inventory restocking that your customers are trying to do?

<A - J. Barrie Shineton, President and Chief Executive Officer>: I mean, I think it's all of that. There's industry publications that have summarized what they think is happening on the demand side, and by and large, I think those publications have got it right. I mean, our customers are all running with low to no inventories, and the pressure on those inventories that they did have is probably more now since the industry, I presume, some of our competitors had log supply issues and stuff in the first quarter as well. So I just think they have got caught generally. And with a little bit better housing news and activity, we've got this dynamic where there isn't, right now, enough structural panels to get the job done.

<Q - Richard Skidmore>: And maybe just a question on the order files, you mention they were out six to seven weeks. Is there any way to know if that, how sustainable or how secure those order are? I, specifically...

<A - J. Barrie Shingleton, President and Chief Executive Officer>: Our order files are all secure. I mean the wood is going to get shipped and it's priced.

<Q - Richard Skidmore>: Okay. And maybe that leads to my last question, which was on pricing. So if you're locking in an order today, you're locking in it at that, whatever the price is in the market today, and if it ships six weeks from now and pricing goes down in that interim, you will still see the benefit of the pricing today six weeks from now, when the product ships? So the pricing doesn't – won't change if prices come off?

<A - J. Barrie Shingleton, President and Chief Executive Officer>: You mean, will a customer at some point feel sorry for himself if prices come off and want you to make an adjustment?

<Q - Richard Skidmore>: Correct.

<A - J. Barrie Shingleton, President and Chief Executive Officer>: I mean, those negotiations do happen from time-to-time, but I don't expect them to impact our business at all.

<Q - Richard Skidmore>: Okay. Great.

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: But Rick, it's Robin speaking. Just to be clear, as I said, when prices are rising rapidly, our mill nets will lag. And the converse would be true, if prices were to fall sharply, our mill nets would be above those for the same reason because of the order files.

<Q - Richard Skidmore>: Okay, great. Thank you.

Operator

[Operator Instructions]. Your next question comes from Pierre Lacroix of Desjardins Securities. Please go ahead, sir.

<Q - Pierre Lacroix>: Hi. Can you hear me now?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Yes, we can, Pierre.

<Q - Pierre Lacroix>: Okay. Thank you. Good afternoon. Just one quick question on the rising costs. You mentioned that it was up in the first quarter, and the trend is up also for the remainder of the year. So what is the main driver behind that?

<A - J. Barrie Shingleton, President and Chief Executive Officer>: What we pay for resin is really – we buy the raw materials that go into resin and we pay a company a tolling fee to convert it to resin. So we're really at the mercy of global price indices for methanol and urea. What else?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Phenol, benzene.

<A - J. Barrie Shingleton, President and Chief Executive Officer>: Phenol. So you can basically follow the published global indices and you can pretty well figure out what resin prices are going to do.

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: And if you don't have access to those indices, Pierre, you can just look at the benchmark price of oil, and that's usually a big driver for us as well because it is underlying some of these inputs.

<Q - Pierre Lacroix>: Okay. I had in mind that natural gas was also an input. But am I right there?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Yes, it is for methanol. You're right.

<Q - Pierre Lacroix>: Okay. Thank you very much.

Operator

Your next question comes from Benoit Laprade of Scotia Capital. Please go ahead sir.

<Q - Benoit Laprade>: Thank you. Just a quick question. When we compare Q4 and Q1, you do mention that you ran your OSB mills at high operating rates, yet shipments in Q1 were 10% below Q4. So was that an inventory movement. Did you ship from inventory in Q4 which you couldn't do in Q1, how should we think of the difference from Q4 to Q1?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Benoit, it's Robin speaking. It's a technical issue and it's, the number of fiscal days in our quarters. Because we always cut off on December 31 and have 13-week quarters that always end on Saturday, the number of fiscal days in Q4 and Q1 is always different. There were 97 fiscal days in Q4 and 85 in Q1. So really that is all of the reason behind the lower shipments. It's a fewer number of fiscal days.

<Q - Benoit Laprade>: Thank you.

OPERATOR

Ladies and gentlemen, that's all the time we have for questions today. So I will now turn the call back over to Barrie Shingleton.

J. BARRIE SHINGLETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thanks, Michelle. As always, Robin and Anita and I will be available to respond to any other questions you have. So call us if you need to, and we look forward to updating you. We really look forward to updating you on our progress in July. Thanks. See you then.

OPERATOR

Thank you. Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation. You may now disconnect your line and have a great day.