

NORBORD INC.
Q2 2010 CONFERENCE CALL
JULY 22, 2010 – 11:00 A.M. ET
CORRECTED TRANSCRIPT

OPERATOR

Good day ladies and gentlemen, and welcome to Norbord Inc.'s 2010 Second 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 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's management's discussion and analysis dated July 22, 2010.

It is now my pleasure to turn the conference over to Mr. Barrie Shineton, President and Chief Executive Officer. Please go ahead, sir.

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you very much Michelle and good morning everyone and welcome to our quarterly conference call. I have Robin Lampard, our CFO with me. Anita Veel, our Director of Corporate and Regulatory Affairs recently left the company for another opportunity. So until we replace her you should direct any questions you might have after the call or in the future to Robin.

Today I'm pleased to report our strongest quarterly financial performance since 2006. We generated positive EBITDA of \$71 million and bottom line earnings of \$37 million or \$0.85 per share.

During the quarter, we also took steps to further improve our liquidity. We increased and extended our bank lines and put in place a new accounts receivable securitization program that provides us with more flexibility and fewer constraints.

Before I turn the call over to Robin, there are two points I would like to highlight.

First, a few comments on the better OSB prices we saw in North America this quarter. I think there were several important factors that played out in the lead up to the quarter. Housing demand was bouncing along the bottom late last year and Norbord, along with other producers, had curtailed capacity in light of this low demand. Wholesalers, distributors and retailers reduced OSB inventories to very low levels as they focused on their own working capital initiatives. And the unusually wet and cold weather in the first quarter particularly in the U.S. South – which is important to us – restricted access to forests and curtailed log deliveries to mills.

In our view, these developments limited a timely supplier response to both the spring bump in construction activity and the overall improvement in year-over-year housing starts. While we operated all our mills at capacity during the quarter, it's pretty clear that overall demand outstripped the ability of both producers and distributors to increase supply. And this resulted in

what I would define as surging OSB prices that peaked in May before returning to more sustainable levels by quarter-end. Our quarter one operating difficulties in the U.S. South were behind us and we had our operations well positioned early in the quarter to capture the benefits of what turned out to be a much stronger market.

My second point is that while media reports on housing continued to be mixed, the situation is improving for most home builders. In spite of the disappointing June numbers, actual U.S. housing starts and building permits are up almost 15% over last year. New home inventories are at their lowest level in 40 years and home affordability is now very attractive.

In our UK market housing starts are actually up 75% so far this year. And although progress in both Europe and North America is likely to be slow and uneven, I do believe a housing recovery is underway. We've delivered a strong result this quarter and we're well positioned when I look forward into the second half of the year.

And with that I'll turn it over to Robin.

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

Thanks, Barrie. As Barrie highlighted, we had a very strong second quarter, largely thanks to higher OSB prices in North America.

Benchmark, North Central OSB prices ranged from \$195 to \$395 and averaged \$295 in Q2. The North Central average was up \$83 from the prior quarter and \$149 from the same quarter last year. SouthEast Benchmark prices averaged \$277 in Q2, an \$80 improvement from Q1 and up \$137 from Q2 last year.

Our operating North American mills ran at approximately 100% of capacity in the second quarter compared to 85% in the prior quarter and 80% in the same quarter last year. Our OSB mills in Huguley, Alabama and Jefferson, Texas remain indefinitely shut. Together these two mills represent approximately 20% of Norbord's annual North American OSB production capacity. Considering both the operating and indefinitely closed mills, our North American OSB mills ran at approximately 80% of capacity in Q2, compared to 65% in Q1, and 60% in Q2 of last year.

Turning to Europe, significantly improved housing activity in our primary market of the UK supported stronger panel demand. European panel prices rose 14% for OSB and 4% for particleboard and MDF compared to the prior quarter. Our European mills ran at 100% of capacity in the second quarter as well, 90% in the prior quarter and 75% in the same quarter last year.

We generated positive EBITDA of \$71 million in the second quarter, a \$62 million improvement from the first quarter and \$72 million better than the same quarter last year. The improvement was largely driven by higher panel prices, but also by improved volume and key input usages as our mills ran better with the weather impact of Q1 behind us. A full EBITDA variance analysis for the quarter and year-to-date can be found in our MD&A.

North American OSB operations generated EBITDA of \$64 million in the second quarter. This is a \$56 million improvement over Q1 and \$70 million better than last year. OSB shipment volume increased by approximately 35% quarter-over-quarter as we ran all of our operating mills flat out realizing the full benefit of the stronger prices in Q2.

Our North American OSB cash costs per unit decreased by 4% quarter-over-quarter, primarily due to improved resin, energy and fiber usages and higher production volumes which more than offset the impact of higher resin prices and employee profit share costs. Year-over-year, per unit costs increased by 11% primarily due to higher resin and fiber prices, which were at cycle lows in 2009. The negative impact of these higher input prices was partially offset by the benefit of higher production volumes.

European operations generated EBITDA of \$10 million in the second quarter. This is \$5 million higher than Q1, due to higher panel prices and shipment volumes, lower energy prices and lower fiber usages. And it was \$6 million better than Q2 of last year. Higher panel prices and shipment volumes and lower energy prices more than offset the negative impact of higher fiber and resin prices year-over-year.

Turning now to working capital. Operating working capital decreased by \$16 million during the second quarter. This quarter-over-quarter decrease was due to a number of factors. Higher accounts payable due to the increase in production volume, as well as the timing of bond coupon payments. Lower inventory due to the seasonal drawdown in log inventories at our Northern mills. And an increase in account receivables securitization proceeds. This was only partially offset by higher accounts receivable due to the better OSB prices and sales volumes.

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

Operating activities generated \$75 million in cash in the second quarter or \$1.72 per share due to the strong EBITDA results and lower operating working capital. Our capital investment was \$5 million in the quarter and \$6 million year-to-date. We expect to limit CapEx for 2010 to \$15 million unless market conditions warrant investments at a higher level.

As Barrie mentioned at the beginning of the call, we took further steps during the quarter to improve our liquidity. Subsequent to quarter end, we increased our committed revolving bank lines from \$205 to \$245 million by adding a seventh lender to our bank group, and we extended the maturity by two years to May 2013. With this increase in liquidity, we cancelled the \$50 million Brookfield debt facility which was undrawn.

Pro-forma for these changes we had liquidity of \$311 million at quarter end consisting of \$74 million in cash and \$237 million in undrawn bank lines.

During the quarter, we also finalized a new \$85 million accounts receivable securitization program with a third party trust sponsored by a highly rated Canadian bank. This replaced the existing program. The new program has an evergreen commitment subject to termination on 12 months notice. It contains no financial covenants and is subject to a minimum credit rating requirement of single B mid or equivalent.

Our strong results significantly improved our financial ratios this quarter. Our net debt to capitalization ended the quarter at 51% versus the 65% covenant and tangible net worth was \$360 million versus the \$259 million covenant.

Finally, you will have seen in our news release that we announced our intention to put in place a normal course issuer bid subject to TSX approval. This will allow us to repurchase up to 5% of our outstanding common shares over the next year. We've had normal course issuer bids in place in the past and this is a customary practice.

We're going to jump straight into questions now and so with that, I'll turn things over to Michelle, the operator, who will open up the lines.

Q&A

Operator

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

<Q - Sean Steuart>: Thanks. Good morning, everyone. Couple of questions, Robin, wondering if you can remind us what the carrying value of Huguley and Jefferson are on your books, and just wondering if there is a timeframe to reassess that value. I guess with your auditors as long as those assets stay down?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Sean, as you probably know, we've never disclosed any individual carrying values. But what I would say is that at every year end, we do need to go through formal impairment testing work with our auditors and we have never had to take a write-down on any of our assets and that would include the two that are mothballed.

<Q - Sean Steuart>: Okay. Next question on the EBITDA variance table, a couple of things there. You had a \$9 million sequential positive variance from key input usage and I guess, I'm just wondering – it seems counterintuitive that you would have that sort of positive variance given higher operating rates this quarter. Is that just a function of inventory drawdown through the quarter, can you explain what else might have gone into that?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Sean, it's the fact that the weather impacts that we talked about last quarter in Q1 are behind us and were behind us in Q2. So we had said that the wet wood we were getting into our mills in Q1 not only had increased the cost but also caused all of our mills to run slower, and that impacts usages and the likes. So that's really the impact of that being behind us in Q2.

<Q - Sean Steuart>: Got it. And then last question Robin, the \$8 million negative variance from the other segment, how much of that was employee profit sharing?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: \$2 million of that was profit sharing. There is a host of other things in there, some of it is foreign exchange, a little bit on labor but \$2 million was profit share.

<Q - Sean Steuart>: Okay. That's great. That's all I have for you now. Thank you.

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: You're welcome.

Operator

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

<Q - Paul Quinn>: Yes. Thanks very much. Great quarter guys. Just a question on current markets, I mean, we obviously had great conditions in Q2, what are you expecting for the balance of the year?

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: Would you like me to answer that Paul?

<Q - **Paul Quinn**>: Sure. That would be great, Barrie.

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: Well, I think as we look forward, we're in the dog days of summer, I guess. So we expect weaker markets as we go into July and August. I'm interested to see what September and October holds for us so that's where my interest is right now.

<Q - **Paul Quinn**>: And just on the capacity side, have you noticed any capacity restarts on the OSB side?

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: I think the APA numbers came out yesterday, Paul, and if you've looked at them it would appear that about 55% to 60% of the OSB capacity ran in quarter two and that would be up from 50% in quarter one I think. That's how I interpret the numbers anyway.

<Q - **Paul Quinn**>: Great. That's all I had. Thanks, guys.

Operator

Your next question comes from Pierre Lacroix of Desjardins Securities. Please go ahead.

<Q - **Pierre Lacroix**>: Yes, thanks. Barrie, just to come back on the supply side. Did you mention that you're running full right now or you're taking some time off according to the summer slowdown?

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: Well, I think we mentioned that we ran at 80% in quarter two, Pierre. We will disclose how we ran at the end of the third quarter, I think, which is our practice. But I would say to you that we forecast by mill our EBITDA weekly, they have pretty stringent working capital targets and of course, we monitor our order file almost everyday. So if we don't like any of those things, we are not going to hesitate to take our mills down.

<Q - **Pierre Lacroix**>: Okay. And talking about working cap, positive variance so far in the first two quarters, what do you expect in the third and the fourth quarter? Normally you have a build up of working cap as the year progress, right?

<A - **Robin E. Lampard, Senior Vice President and Chief Financial Officer**>: Yes. Pierre, it's Robin. Usually in the first quarter is when we see our working capital build and that's because of the seasonal logging practices in our northern mills. We typically see that reverse over the rest of the year. And remember, in Q1, we got a tax refund that was flowing through the working capital line in the first quarter so that's why it looks flat.

<Q - **Pierre Lacroix**>: Okay.

<A - **Robin E. Lampard, Senior Vice President and Chief Financial Officer**>: We would expect working capital to reduce over the rest of the year.

<Q - **Pierre Lacroix**>: Okay. Perfect. And lastly on pricing in Europe, have you seen the volatility in Europe on the pricing side, the same volatility that we saw in North America or is it still pretty much stable over there?

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: I wouldn't use stable Pierre as a description, but we sell quite differently in Europe than we do here under longer-term, quarterly and half year pricing contracts. So I think, when we look forward in the market, we still expect prices will move up in quarter three a little bit and then probably flatten out the rest of the year.

<Q - **Pierre Lacroix**>: Okay. That's helpful. Thank you very much.

Operator

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

<Q - **Rick Skidmore**>: Hi, good morning. Just a question, you've seen some increased consolidation in the OSB markets over the last couple of quarters. Barrie, have you seen it change any of the competitive dynamics in the OSB business?

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: Well, Richard, if you're referring to GP's acquisition of Grant, I guess I said last time when someone asked a similar question that we think GP is a very good company and a very good competitor. So that's always positive when you've got good competitors.

<Q - **Rick Skidmore**>: So on the margin things have perhaps become a little bit – the consolidation might be helping the industry a bit more than say a year ago?

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: I don't know what you mean by help but we have the view that we don't have any influence on prices anyway. Our customers do. I don't know what you're getting at.

<Q - **Rick Skidmore**>: Okay. Thank you.

Operator

[Operator Instructions]. We have a question from Pierre Lacroix of Desjardins Securities. Please go ahead.

<Q - **Pierre Lacroix**>: Thanks. I just wondered, Robin, if you could provide some of the key highlights of what you expect with regard to IFRS switching in January 1? What will be the main impact that you will be looking at?

<A - **Robin E. Lampard, Senior Vice President and Chief Financial Officer**>: Pierre, there's about a page and a half of disclosure in our MD&A that you may not have had a chance to read yet because I realize our results just came out this morning. I'd encourage you to take a look at that. What I would say is that, we're in very good shape in terms of being ready for that changeover. And next quarter, we would expect to actually put some numbers around that, so you can get a feel for it as we head towards it.

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

OPERATOR

There are no further questions from the phone line.

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you very much everybody and thanks Michelle. And as always, Robin and I are available, if you have any questions give us a phone call and we'll be pleased to spend some time with you talking through those questions. Have a good day and thanks again.

OPERATOR

Ladies and gentlemen, this does conclude the conference call for today. We thank you for participating. You may now disconnect your lines and have a great day.