



# American Timber and Agriculture, LLC

TIMBERLAND INVESTMENT COMMENTARY

1<sup>st</sup> Quarter 2019



## About Us

American Timber and Agriculture, LLC is an institutional investment management firm committed to serving mid-size investors with timberland tracts in the Southeastern United States. Working with our target clients - foundations, endowments and family offices - we construct timberland portfolios utilizing parcel sizes between 500 and 10,000 acres. We highly customize portfolios based on our clients' objectives and constraints with an emphasis on real estate liquidity management. Our operating subsidiary company, Mitchell Forestry and Wildlife Services, LLC, employs five professional, licensed foresters with offices in Corinth, Mississippi (80 miles east of Memphis, Tennessee) and Lucedale, Mississippi (35 miles northwest of Mobile, Alabama).

Websites:

<https://www.americantimberandag.com/>

<http://www.mitchellforestry.com/>

Linkedin:

<https://www.linkedin.com/company/american-timber-and-agriculture-llc/>

Twitter:

<https://twitter.com/AmerTimberandAg>

Offices:

American Timber and Agriculture, LLC  
2686 Burton Briar Circle  
Collierville, Tennessee 38017  
(901) 270-1021  
Email: [americantimberandag@gmail.com](mailto:americantimberandag@gmail.com)

Mitchell Forestry and Wildlife Services, LLC  
1825 Proper Street  
Corinth, Mississippi 38834  
(662) 287-0900  
Email: [mitchellforestry@bellsouth.net](mailto:mitchellforestry@bellsouth.net)

Mitchell Forestry and Wildlife Services, LLC  
17252 Highway 26 West, Suite 6  
Lucedale, Mississippi 39452  
(601) 530-9149

Cover Photo: In 2017, West Fraser acquired six sawmills in Georgia and Florida from the Gilman Companies for \$430 million. No copyright infringement is intended.

## Market Commentary

*When the enemy is close at hand and remains quiet, he is relying on the natural strength of his position – The Art of War (Sun Tzu)*

While the Canadian forest industry might take exception to the analogy, their infiltration of the U.S. South’s sawmills has been slow, methodical and under the radar. Certainly, “quiet” would be an exaggeration. After all, West Fraser Timber (WFT), Interfor (IFP), Canfor (CFP) and Conifex Timber (CFF) are all publicly-traded on the Toronto Stock Exchange, and each of their many acquisitions have come with press releases and industry commentary. But generally speaking, the encroachment has been undetected.

Not that long ago the Canadians were primarily only in Canada. In 2004, only two U.S. sawmills were owned by a Canadian company (West Fraser), but by the spring of 2015, 35 mills were owned by just three Canadian companies: West Fraser, Interfor and Canfor.<sup>1</sup> According to the International WOOD MARKETS Group Inc., these three companies owned more mills in the U.S. than they did in Canada.<sup>2</sup> In March 2018, FEA Canada/WOOD Markets reported that these three had increased their U.S. mill count to 45 (West Fraser 21, Interfor 13 and Canfor 11). To put the numbers in perspective, the top 10 companies owned 113 U.S. mills in total.<sup>3</sup>

### U.S. Top 10 Softwood Lumber Producers – 2017 (Million Board Feet)

Firm	Number of Open Mills	MMBF	% of U.S. Shipments	Country (State/Province)
Weyerhaeuser	16	3,682	10.87%	USA (Washington)
Georgia-Pacific (a)	17	2,597	7.67%	USA (Georgia)
West Fraser	21	2,424	7.16%	Canada (B.C.)
Sierra Pacific	12	2,064	6.10%	USA (California)
Interfor	13	1,720	5.08%	Canada (B.C.)
Canfor	11	1,411	4.17%	Canada (B.C.)
Hampton (a)	7	1,410	4.16%	USA (Oregon)
Idaho Forest Group	6	1,108	3.27%	USA (Idaho)
Potlatch FP	4	735	2.17%	USA (Washington)
Stimson	6	620	1.83%	USA (Oregon)
Total Top 10	113	17,771		
Total U.S. Shipments		33,861		
% of U.S. Shipments		52.5%		
Notes: Includes lumber produced only at primary sawmills and excludes all Canadian and offshore production.				
(a) Estimate				
Source: FEA Canada/WOOD MARKETS				

Conifex Timber did not even exist in 2004. Conifex was established in 2008 when it acquired its first idle sawmill in British Columbia. A second mill followed two years later, and then a biomass plant was added in 2015.<sup>4</sup> Conifex also entered the U.S. in 2015, buying an idle Georgia-Pacific mill in El Dorado, Arkansas.<sup>5</sup> In May of last year, Conifex bought two mills producing Southern Yellow Pine (SYP) dimensional lumber, Suwanee Lumber in Cross City, Florida and Caddo River Forest Products in Glenwood, Arkansas, from private-equity firm Blue Wolf Capital Partners. The 2018 acquisitions increased Conifex’s annual capacity by 50 percent boosting their potential annual output to 1.1 billion board feet.<sup>6</sup> The expansion moves Conifex to the 6th largest softwood lumber producer in the South and the 9th in the

U.S. as they join the other three big Canadian companies in the U.S. top 10. While the official numbers for 2018 have yet to be reported, it looks like Conifex's move into the top 10 will give the (now) four big Canadians just under 20% market share in the U.S.<sup>7</sup> and their share of the U.S. Southern market will exceed 40%.

### **Why Have the Canadians Come to the South?**

We want to explore the reasons the Canadians have come to Dixie and what the effect has been and might be in the future.

The list of reasons for the acquisition spree is lengthy:

- 1) High-quality wood supply in the South<sup>8 9</sup>
- 2) The "dominant, low-cost lumber supply region of North America"<sup>10</sup>
- 3) Skilled labor pool<sup>11</sup>
- 4) Supply shortage in the interior region of British Columbia due to the mountain pine beetle infestation<sup>12</sup>
- 5) "There is too much (mill capacity in B.C.) chasing too few sawlogs"<sup>13</sup>
- 6) 25 sawmills have closed in the B.C. interior since 2006 and another three to five may close by 2025<sup>14</sup>
- 7) The South's 210 million acres of fast-growing forests<sup>15 16</sup>
- 8) An expanding housing market from Texas to Virginia to Florida<sup>17</sup>
- 9) Southern mill operating margins are the highest in the world<sup>18</sup>
- 10) Potentially avoid new tariffs or export restrictions

Ten years ago, the Canadians clearly saw the market landscape in British Columbia deteriorating, and they saw greener pastures in the U.S. South. Each of the ten potential reasons noted above are known around the industry, and there is no special insight required to consolidate the list.

The one reason that stands out is #9 – southern mills having the highest operating margins in the world. The high margin is clearly linked to the "wall of wood" – the supply glut created during the 2008/2009 economic recession and the South's fast-growing supply base. The Canadians saw this phenomenon occurring in real time and acted quickly in order to take advantage of the South's market.

We do wonder why Weyerhaeuser (#1 in 2008), Georgia-Pacific (#2) and Temple-Inland (#4) in their dominant positions ten years ago effectively let the Canadians buy up all these highly profitable mills. The answer is complex, and analysis with the benefit of ten years hindsight is still only an opinion.

While the Canadians were making a bigger bet on softwood mills, Weyerhaeuser was going in another direction. From 2007 to 2009, Weyerhaeuser was exiting the paper business (selling to Domtar which included selling two softwood lumber mills) and exiting the containerboard packaging business (selling to International Paper). Dan Fulton became Weyerhaeuser's President and CEO in 2008 and set to reshape the company as a

timberlands manager. In 2010, Weyerhaeuser converted to a REIT structure and thus began its mission to build acreage.<sup>19</sup>

With Weyerhaeuser actually decreasing their MMBF capacity from 2008 through 2017, Georgia-Pacific did grow, albeit very slowly. Privately-held, Koch Industries bought the debt-laden Georgia Pacific in 2005. Koch directed GP's focus on building their paper and pulp business and improving their financial position. In 2013, GP purchased Temple-Inland Building Products from parent International Paper. This purchase brought 16 new manufacturing facilities - five solid wood mills, four particle board plants, two medium-density fiber board plants, one fiber board plant, and four gypsum wall board plants in the Southern U.S.<sup>20</sup>

Temple-Inland was going through a major transformation themselves in 2007, splitting the company into three parts - Temple Inland Inc., Guaranty Financial Group Inc., and Forestar Real Estate Group Inc. Temple Inland Inc. became a manufacturing company focused on corrugated packaging and building products. International Paper bought Temple Inland Inc. in 2012, and subsequently sold off the building products segment to Georgia Pacific in 2013.<sup>21</sup>

The #5 player in 2008, Georgia-based Gilman Companies, with 612 MMBF capacity was swallowed up by West Fraser in 2017, moving the Canadian company into the #1 position in South ahead of both Weyerhaeuser and Georgia-Pacific.

### **Evaluating the Effect**

Context is such an important factor to consider in this analysis. We have already noted that the Canadian big four now control 40+% of the South's MMBF capacity. That is a lot of concentration for four players, but the stark contrast comes when viewing how fragmented this industry was only twenty years prior. The concentration process has developed from two angles - local, privately-owned sawmills have sold out to big corporate interests, and the number of existing mills has shrunk considerably. From 1995 to 2009, the number of Southern-based softwood sawmills fell from 420 to 298.<sup>22</sup>

The effect for the Canadians has been lucrative profit margins and lots of black ink. For Southern landowners, the effect has been subdued prices at the mill with the supply glut of sawlogs. Actually, the "wall of wood" would have been present even if the Canadians never bought in the South, but the concentration of mill ownership has probably meant more coordinated pricing discipline by the Canadians. This is not to imply price collusion on the part of the Canadians, but the price a mill pays for wood is typically public knowledge. One mill will base its pricing off what another one pays.

The Canadians do have their critics. Robert Crosby, President of the Forest Landowners Association, worries that during the next economic downturn, the Canadians will idle their mills in the Southern U.S. and keep the mills in British Columbia up and running. He sees the Canadian government's (the owner of the Canadian forests) willingness to drop stumpage prices for sawlogs and its ability to apply political pressure keeping the Canadian mills running.<sup>23</sup>

There is a positive aspect, and it is important to note that the Canadians have done far more than just purchase operating mills or reopen idle mills. They have also invested heavily in mill modernizations and expansion in board feet capacity.<sup>24</sup> The mills have created jobs, and generally these are middle class jobs in rural locations (highly visible and highly politicized).

While we have only focused on the Canadian big four, there are smaller players in the market building their Southern presence. In February 2018, Canada's privately-owned Tolko Industries announced they would build a \$115 million sawmill in LaSalle Parish, Louisiana along with 50/50 partner, Ruston, Louisiana-based Hunt Forest Products. When completed, the new mill will consume 850,000 tons of Louisiana wood annually and produce 200 MMBF.<sup>25</sup>

The Canadians have also made strategic investments outside of North America. In March 2019, Canfor announced a \$508 million investment to purchase 70% of Sweden's largest private sawmill company, VIDA Group.<sup>26</sup>

### **What the Future Holds**

It is our position that prices in the South will change behavior. As we noted last quarter in our commentary, we expect many individual landowners in the South (some against our advice) not to replant for the next 25-30 year softwood cycle. Replanting requires investment (about \$250/acre), and the U.S. government's CRP program is paring back, meaning less subsidy from the government to encourage planting trees. Additionally, the number of existing mills has declined over the past 25 years, which means some areas of the South are in dead zones – areas too far from a mill geographically to transport trees for a reasonable profit.

The mountain pine beetle epidemic started in British Columbia and Alberta in 1999 and the region has not experienced a cold enough (or long enough) winter in the past twenty years to eradicate the species. The resulting Canadian timber supply has probably flat lined, while international use of lumber continues to grow as population grows. Chinese imports of wood continue to increase and have generally been satisfied by Russian and Canadian exports.<sup>27</sup> At some point, Canadian exports to the U.S will not keep up with demand, and prices for U.S. domestic wood will increase just as the Southern "wall of wood" is diminishing.

Dodd Williams, CFA  
April 2, 2018

## Appendix A

List of the U.S. lumber mills now owned by Canadian companies:

### West Fraser (21 Total, 21 in the South)<sup>28</sup>

Maplesville, Alabama  
Opelka, Alabama  
Huttig, Arkansas  
Leola, Arkansas  
Mansfield, Arkansas  
Russellville, Arkansas  
McDavid, Florida  
Perry, Florida  
Lake Butler, Florida  
Maxville, Florida  
Whitehouse, Florida  
Blackshear, Georgia  
Fitzgerald, Georgia  
Dudley, Georgia  
Augusta, Georgia  
Joyce, Louisiana  
Armour, North Carolina  
Seaboard, North Carolina  
Newberry, South Carolina  
Henderson, Texas  
New Boston, Texas

### Interfor (14 Total, 9 in the South)<sup>29</sup>

Monticello, Arkansas  
Georgetown, South Carolina  
Meldrim, Georgia  
Baxley, Georgia  
Swainsboro, Georgia  
Preston, Georgia  
Eatonton, Georgia  
Perry, Georgia  
Thomaston, Georgia  
Port Angeles, Washington  
Longview, Washington  
Sumas, Washington  
Molalla, Oregon  
Gilchrist, Oregon

Canfor (12 Total, in the South)<sup>30</sup>

Fulton, Alabama  
Jackson, Alabama  
Mobile, Alabama  
El Dorado, Arkansas  
Moultrie, Georgia  
Thomasville, Georgia  
Hermanville, Mississippi  
Graham, North Carolina  
Camden, North Carolina  
Conway, South Carolina  
Darlington, South Carolina  
Marion, South Carolina

Conifex Timber (3 Total, 3 in the South)<sup>31</sup>

El Dorado, Arkansas  
Glenwood, Arkansas  
Cross City, Florida

Tolko Industries (1 Total, 1 in the South)<sup>32</sup>

Urania, Louisiana (50% ownership)

---

<sup>1</sup> US Sawmill Buying Adds Insult to Reman Injury, Robin Brunet, May 12, 2015, The Working Forest Newspaper, page 3. <https://www.workingforest.com/spring-2-2015-vol-19-3/>

<sup>2</sup> ibid

<sup>3</sup> News Release: Canada & U.S. “Top 20” Lumber Producers’ Annual Ranking: 2017, April 3, 2018, FEA Canada/Wood Markets, <https://www.woodmarkets.com/canada-u-s-top-20-lumber-producers-annual-ranking-2017/>

<sup>4</sup> Canada’s Conifex Lumber Expands in U.S. with Multiple Sawmill Acquisitions, Robert Dalheim, May 18, 2018, Woodworking Network, <https://www.woodworkingnetwork.com/news/woodworking-industry-news/canadas-conifex-lumber-expands-us-multiple-sawmill-acquisitions>

<sup>5</sup> Canadian Company Buying Shuttered G-P Mill in El Dorado, August 6, 2015, Magnolia Reporter, [http://www.magnoliareporter.com/news\\_and\\_business/local\\_business/article\\_6c63c96a-3c74-11e5-93bf-8b75ee074450.html](http://www.magnoliareporter.com/news_and_business/local_business/article_6c63c96a-3c74-11e5-93bf-8b75ee074450.html)

<sup>6</sup> Canada’s Conifex Lumber Expands in U.S. with Multiple Sawmill Acquisitions, Robert Dalheim, May 18, 2018, Woodworking Network, <https://www.woodworkingnetwork.com/news/woodworking-industry-news/canadas-conifex-lumber-expands-us-multiple-sawmill-acquisitions>

<sup>7</sup> The only U.S. company in the 2017 Canadian top 10 is Weyerhaeuser with three Canadian mills and 827 MMBF capacity or 2.9% market share.

<sup>8</sup> During its 2014 acquisition of Southern Lumber Company in Hermanville, Mississippi, Canfor Corp. noted “trees around Hermanville (Southwest Mississippi) are ‘of exceptionally high quality’ and could allow it to make higher value products.” Canadian Company Purchasing Southern Lumber for Nearly \$50M, October 1, 2014, Mississippi Business Journal, <https://msbusiness.com/2014/10/canadian-company-purchasing-southern-lumber-nearly-50m/>

<sup>9</sup> “Conifex Timber Inc. of Vancouver, Canada, said Thursday that it is buying the former George-Pacific sawmill south of El Dorado. The El Dorado mill is situated in an area well regarded for its availability of high quality sawlogs within cost effective proximity and a skilled labor pool.” Canadian Company Buying Shuttered

---

G-P Mill in El Dorado, August 6, 2015, Magnolia Reporter, [http://www.magnoliareporter.com/news\\_and\\_business/local\\_business/article\\_6c63c96a-3c74-11e5-93bf-8b75ee074450.html](http://www.magnoliareporter.com/news_and_business/local_business/article_6c63c96a-3c74-11e5-93bf-8b75ee074450.html)

<sup>10</sup> “Conifex Timber Inc. CEO Ken Shields’ rationale for his company’s decision to spend US\$21 million to buy a mothballed Arkansas sawmill sounds like a wake up call to a British Columbia forestry sector grappling with mounting challenges. ‘The U.S. south has overtaken the interior region of B.C. as the dominant, low-cost lumber supply region of North America.’ Conifex Joins B.C. Lumber Producers Bound for U.S. South, Derrick Penner, August 25, 2015, Vancouver Sun, [www.vancouversun.com/business/Conifex+joins+lumber+producers+bound+south/11316635/story.html](http://www.vancouversun.com/business/Conifex+joins+lumber+producers+bound+south/11316635/story.html)

<sup>11</sup> “Conifex Timber Inc. of Vancouver, Canada, said Thursday that it is buying the former George-Pacific sawmill south of El Dorado. The El Dorado mill is situated in an area well regarded for its availability of high quality sawlogs within cost effective proximity and a skilled labor pool.” Canadian Company Buying Shuttered G-P Mill in El Dorado, August 6, 2015, Magnolia Reporter, [http://www.magnoliareporter.com/news\\_and\\_business/local\\_business/article\\_6c63c96a-3c74-11e5-93bf-8b75ee074450.html](http://www.magnoliareporter.com/news_and_business/local_business/article_6c63c96a-3c74-11e5-93bf-8b75ee074450.html)

<sup>12</sup> “Conifex Timber Inc. CEO Ken Shields’ rationale for his company’s decision to spend US\$21 million to buy a mothballed Arkansas sawmill.....’the reasons why have to do with the aftermath of the mountain pine beetle infestation. It is increasingly expensive to secure decent sawlogs from B.C.’s shrinking short-term timber base, while U.S. southern yellow- pine plantations planted in recent decades are coming into their prime’.” Conifex Joins B.C. Lumber Producers Bound for U.S. South, Derrick Penner, August 25, 2015, Vancouver Sun, [www.vancouversun.com/business/Conifex+joins+lumber+producers+bound+south/11316635/story.html](http://www.vancouversun.com/business/Conifex+joins+lumber+producers+bound+south/11316635/story.html)

<sup>13</sup> Quote from Paul Quinn, industry analyst at RBC Capital Markets, Conifex Joins B.C. Lumber Producers Bound for U.S. South, Derrick Penner, August 25, 2015, Vancouver Sun, [www.vancouversun.com/business/Conifex+joins+lumber+producers+bound+south/11316635/story.html](http://www.vancouversun.com/business/Conifex+joins+lumber+producers+bound+south/11316635/story.html)

<sup>14</sup> Sawmills in U.S. South Have 25-30% Margin and Those in Eastern Canada Just Around 10-15%, Interview with Russell Taylor, President at Wood Resource International, October 16, 2017, [https://www.lesprom.com/en/features/Sawmills\\_in\\_US\\_South\\_have\\_25-30\\_margin\\_and\\_those\\_in\\_Eastern\\_Canada\\_just\\_around\\_10-15\\_8/](https://www.lesprom.com/en/features/Sawmills_in_US_South_have_25-30_margin_and_those_in_Eastern_Canada_just_around_10-15_8/)

<sup>15</sup> “The Canadians are drawn by the region’s 210 million acres of fast-growing forests and expanding housing markets from Texas to Virginia to Florida, according to Brooks Mendell, president of Forisk Consulting, an Athens, Georgia-based timberland researcher.” How a Beetle Invasion Spurred Canadians on a Lumber-Mill Buying Spree in the U.S. South, Brenden O’Hagan, June 23, 2015, Bloomberg News, <https://business.financialpost.com/commodities/agriculture/how-a-beetle-invasion-spurred-canadians-on-a-lumber-mill-buying-spree-in-the-u-s-south>

<sup>16</sup> “Pine trees in Canada take 60 to 80 years to grow to maturity, while southern yellow pine typically goes from seedling to the lumber mill in about 25 years, according to Mark Kennedy, a Calgary-based analyst at Canadian Imperial Bank of Commerce.” How a Beetle Invasion Spurred Canadians on a Lumber-Mill Buying Spree in the U.S. South, Brenden O’Hagan, June 23, 2015, Bloomberg News, <https://business.financialpost.com/commodities/agriculture/how-a-beetle-invasion-spurred-canadians-on-a-lumber-mill-buying-spree-in-the-u-s-south>

<sup>17</sup> ibid

<sup>18</sup> “To put this shift of ownership in an earnings perspective, *Wood Markets 2016 Survey of Global Softwood Lumber Mills* indicated U.S. South mills are by far the most lucrative. Out of 32 countries and/or regions surveyed, ‘average’ U.S. South mills had highest earnings results in 2016 with a 25 percent EBITDA and ‘top-quartile’ mills earnings were off the scale. ‘As has been the case since 2008,’ explained Russ Taylor, Managing Director of FEA-Canada and the principal author of the report, ‘the major operating advantage for U.S. South mills continues to be the region’s low log-cost structure. With a surplus of timber and not enough sawmills operating in the aftermath of the housing market collapse, delivered log prices remain among the lowest in the world with margins being the highest in the world’.” Is Canadian Ownership of U.S. Lumber Mills Impacting the Market?, Sean Shields and T.J. Jerke with contributions from Kirk Grundahl, March 1, 2018, SBC Magazine, <https://www.sbcmag.info/news/2018/mar/canadian-ownership-us-lumber-mills-impacting-market>

<sup>19</sup> Weyerhaeuser website, <https://www.weyerhaeuser.com/company/history/>

<sup>20</sup> Georgia-Pacific Completes Purchase of Temple-Inland, Gary Bass, October 6, 2013, KTRE ABC Channel 9, <http://www.ktre.com/story/22884252/georgia-pacific-completes-purchase-of-temple-inland/>

<sup>21</sup> Wikipedia, <https://en.wikipedia.org/wiki/Temple-Inland>

- 
- <sup>22</sup> The Pattern of Softwood Sawmill Closures in the U.S. South: A Survival Analysis Approach, Daisuke Sasatani and Daowei Zhang, August 2015, Auburn University, <http://www.auburn.edu/~zhangd1/RefereedPub/ForSci2015Sasatani.pdf>
- <sup>23</sup> Q&A with Robert Crosby | Why do Landowners Need a Softwood Lumber Agreement with Canada?, Thomas Bell, March 5, 2018, Forest Landowners, <https://www.forestlandowners.com/qa-robert-crosby-landowners-need-softwood-lumber-agreement-canada/>
- <sup>24</sup> How a Beetle Invasion Spurred Canadians on a Lumber-Mill Buying Spree in the U.S. South, Brenden O'Hagan, June 23, 2015, Bloomberg News, <https://business.financialpost.com/commodities/agriculture/how-a-beetle-invasion-spurred-canadians-on-a-lumber-mill-buying-spree-in-the-u-s-south>
- <sup>25</sup> Louisiana Lands \$115M Sawmill in Timber Country, Greg Hilburn, February 28, 2019, USA Today Network, <https://www.thenewsstar.com/story/news/2018/02/28/breaking-la-lands-115-m-sawmill-timber-country/380353002/>
- <sup>26</sup> We Need to Promote Small Business Forest Industries, March 16, 2019, The Williams Lake Tribune, <https://www.wltribune.com/opinion/we-need-to-promote-small-business-forest-industries/>
- <sup>27</sup> Paper & Forest Products Financial Performance and Outlook Presentation, Paul Quinn, May 4, 2016, RBC Capital Markets, <https://www.pwc.com/ca/en/forest-paper-packaging/publications/20160504-forest-paper-packaging-conference-paul-quinn.pdf>
- <sup>28</sup> West Fraser website, <https://www.westfraser.com/sites/default/files/west-fraser-operations-map-december-2017.pdf>
- <sup>29</sup> Interfor website, <http://www.interfor.com/contact/operations-locations>
- <sup>30</sup> Canfor website, <https://www.canfor.com/docs/map>
- <sup>31</sup> Conifex Timber website, <http://www.conifex.com/main/contact/>
- <sup>32</sup> Tolko Industries website, <http://www.tolko.com/>