

# Tembec 3.0

## Investor Presentation 2017

March 29, 2017



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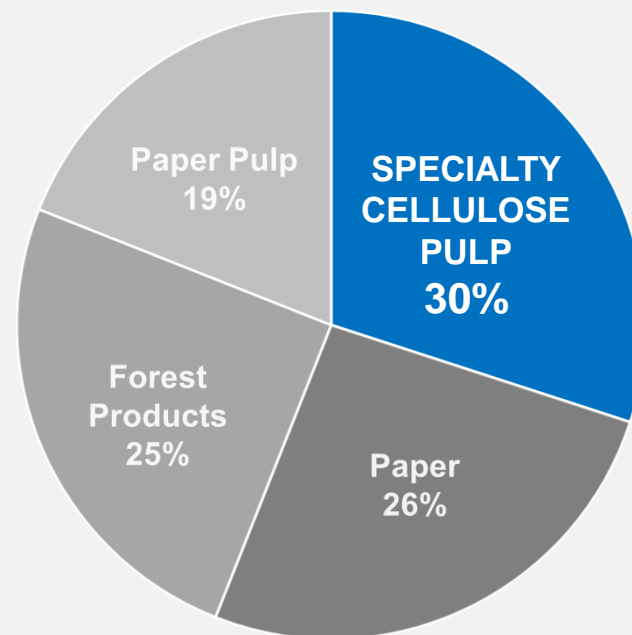
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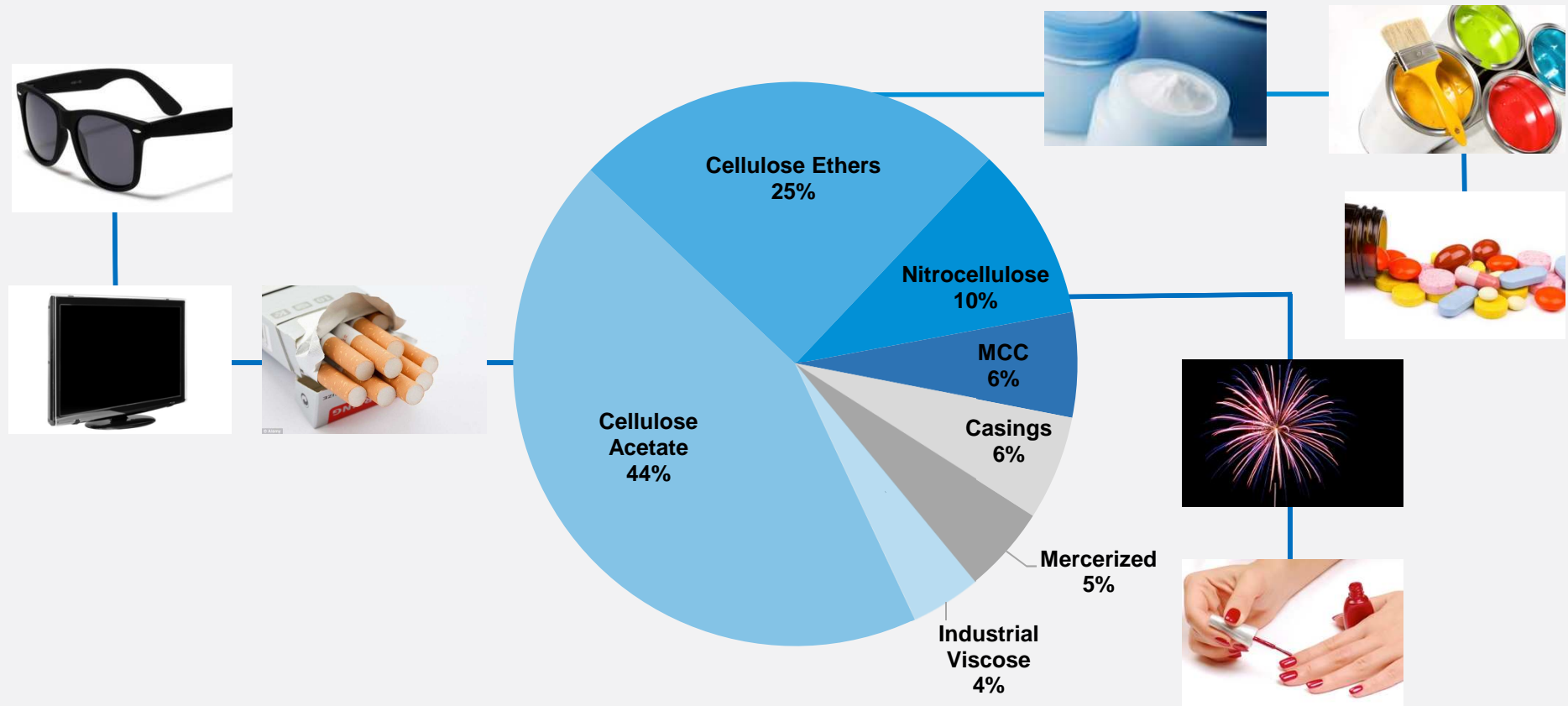
# Who is Tembec?

- TSX listed under TSE: TMB
- 3,000 employees
- Global leader in sustainability
- Customers worldwide, operations in North America and France
- Manufacturer of
  - Forest Products (Lumber)
  - Paper Pulp
  - Paper
  - **SPECIALTY CELLULOSE PULP**

SALES OF \$1.5 BILLION IN FISCAL 2016

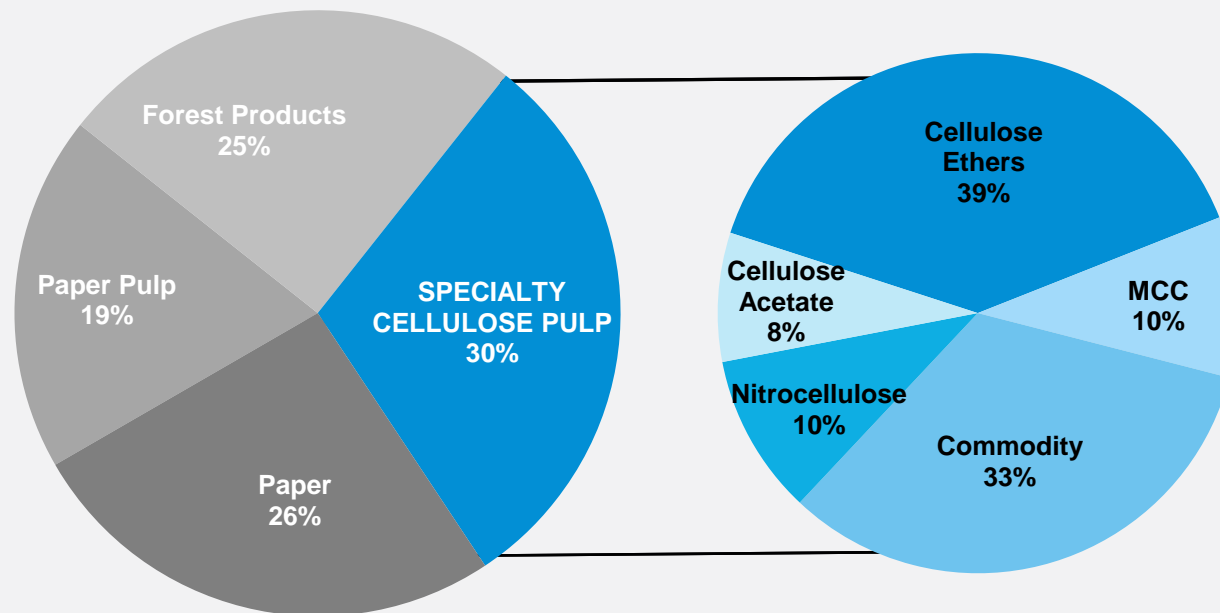


# Global Market for Specialty Cellulose



# Tembec's Market for Specialty Cellulose

- Tembec is well positioned for growth in specialty cellulose market.
- As Cellulose Acetate markets continue to decline, Tembec's strong market position in Cellulose Ethers leaves it well positioned for future growth.



Cellulose Ethers	4%
MCC	4%
Industrial Viscose	2%
Nitrocellulose	0%
Cellulose Acetate	-1%

<sup>1</sup> Compounded Annual Growth Rate

# Applications for Tembec Products

## Forest Products

Framing Materials  
Manufacturing  
Furniture  
Pulp (Wood Chips)  
Fuel (Chips, Sawdust,  
Shavings & Bark)  
Horticulture



## Paper

Commercial Printing  
& Publishing  
Packaging  
Point-of-Sale Displays  
Newspapers  
Paperback Publishers



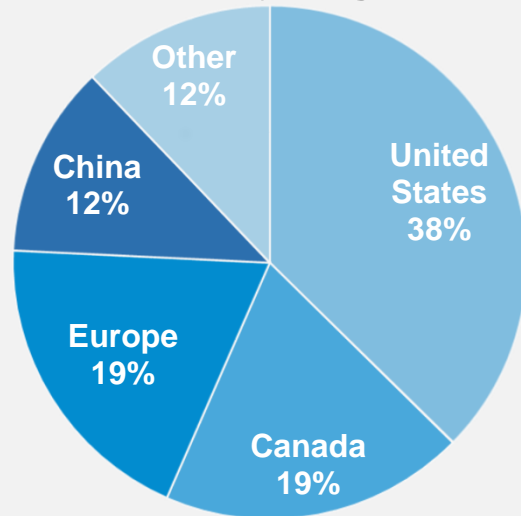
## Paper Pulp

Copy, Printing &  
Writing Papers  
Construction Paper &  
File Folders  
Coated Bleached Board  
Tissue & Toweling

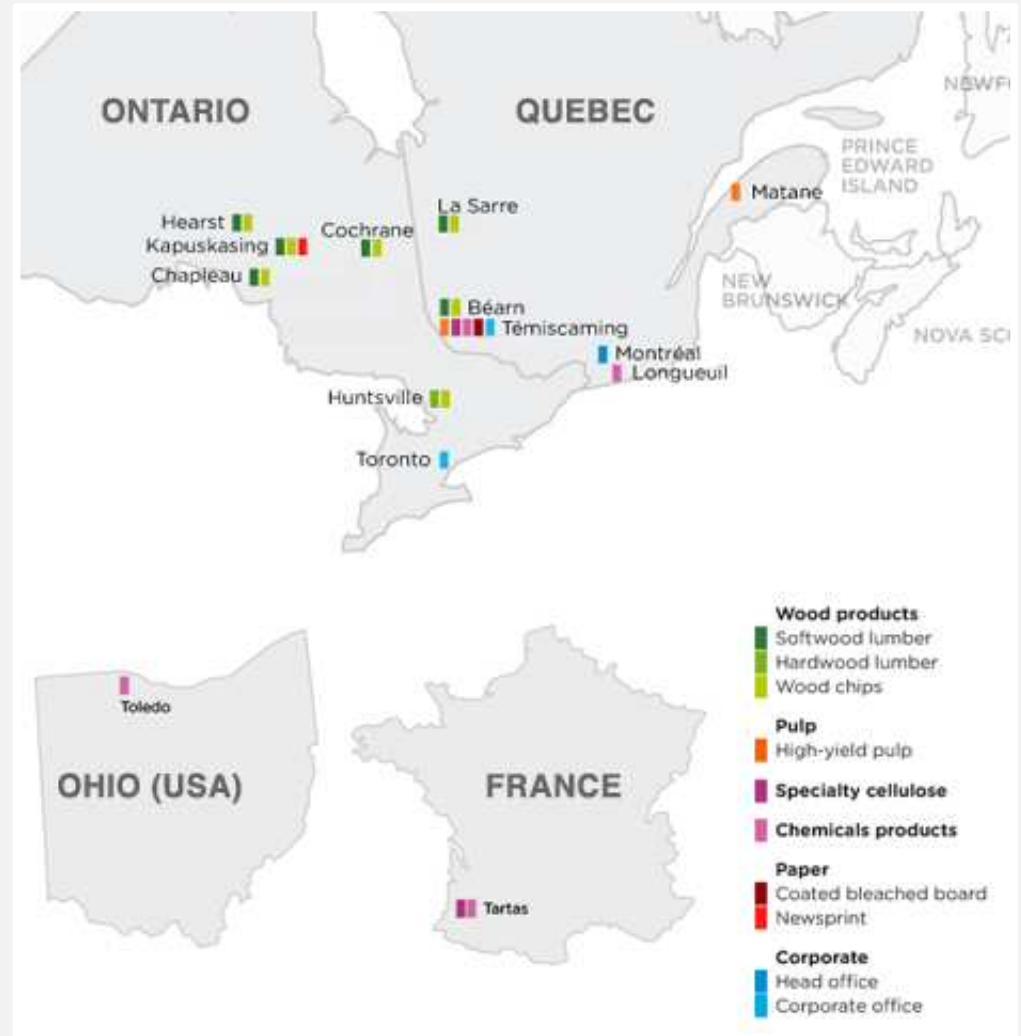


# Regional Sales and Operations

Sales by Region



- 2 Specialty Cellulose Mills – Canada & France
- 7 Sawmills – Canada
- 2 Paper Mills – Canada
- 2 Hardwood Pulp Mills – Canada
- 4 Chemical Plants – Canada, France & US

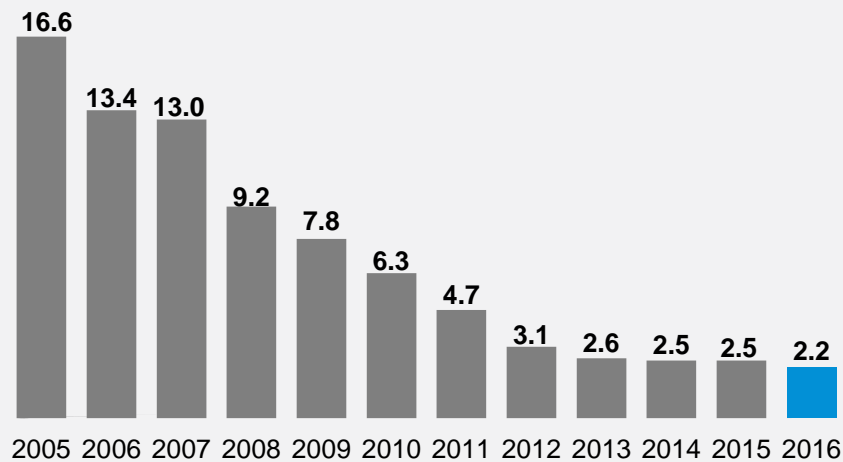


# Tembec's Focus on Safety

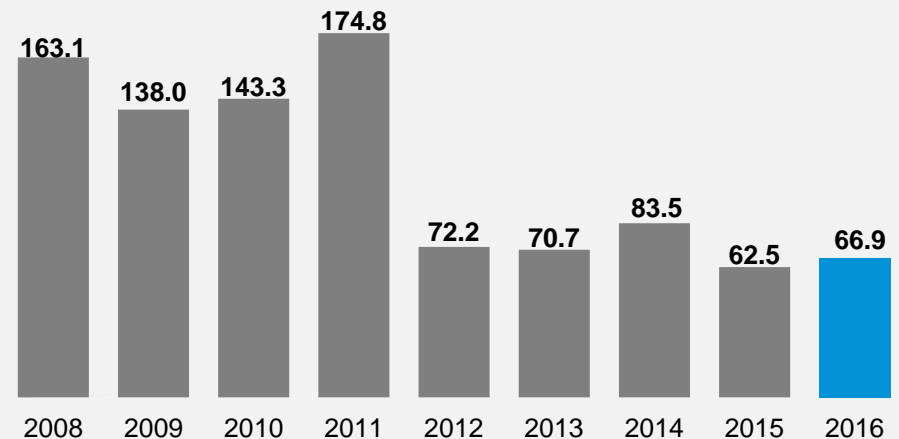
## Safety is Tembec's #1 priority

- Since launching a Health and Safety Plan in 2007, the Company has reduced the Occupational Safety and Health Administration incident rate (OIR) by 85%.
- In 2016, the Company's OIR dropped by 12% year-over-year to an all-time low of 2.2.
- Focus is on training, employee ownership, accountability and risks of all types.

Safety - OSHA Incident Rate



Safety - Total Severity Rate





# Environmental Leadership & Social License to Operate

All Tembec products start in the forest – a renewable resource – and we are well aware that sound environmental practices are good for business and for the community at large.

- **Leadership in Forest Stewardship Council® (FSC®) Certification**

In 2001, Tembec was the first large public company in Canada to commit to utilize standards developed by FSC® and seek certification on all company forest management units. By 2008, Tembec had certified 100% of public forestlands under its management, and also achieved Chain of Custody certification.

- **Forest Conservation**

Tembec works with Canadian Parks and Wilderness Society (CPAWS), Wildlands League and Ducks Unlimited Canada, among other such organizations. Focus on conserving and protecting forest lands, including wetlands, and wildlife habitat for species at risk.

- **Aboriginal Policy**

Tembec builds and maintains relationships with First Nations and Métis communities near operations. Policy addresses capacity building, employment, information-sharing, business relations and measures to harmonize traditional land use and forestry operations. Tembec's initial 1999 First Nations Policy was a trendsetter in the forest products industry.

# Environmental Leadership & Social License to Operate

Tembec works collaboratively with groups and individuals that assert rights and interests in the forest lands on which Tembec operates, and who live in proximity to its manufacturing facilities.

- **Environmental Management System is Among North America's Best**

First major Canadian forest product company to implement in all operations internationally recognized EMS best practices in compliance with ISO 14001 standard.

- **Reducing Usage of Conventional Energy and Maximizing Fiber Utilization**

Tembec co-generates green electricity, uses biogas from wastewater, and produces green steam using fuels such as biomass and manufacturing residuals. Green energy reduces usage of conventional energy, notably fossil fuels, helping to address climate change.

# Tembec's Leadership

Seasoned executives with broad forest products industry experience. Deep expertise in general management, finance, operations, sales and marketing, and business development.



## **James Lopez, Director, President and CEO**

Mr. Lopez was appointed President and Chief Executive Officer in January 2006 and has been a Director of the Corporation since January 2006. Prior to being named President and Chief Executive Officer, Mr. Lopez served as Executive Vice President and President of the Corporation's Forest Products Group from August 2003 to January 2006. Currently Mr. Lopez is a co-chairman of the Bi-National Softwood Lumber Council between Canada and the United States. He graduated from California University of Pennsylvania with a bachelor's degree in economics in 1981.



## **Michel Dumas, Executive Vice President, Finance and CFO**

After obtaining an Honors Bachelor of Commerce degree from the University of Ottawa in 1980, Mr. Dumas joined Tembec in 1985 as Controller for the High-Yield Pulp Mill in Temiscaming, Quebec. In 1991, he became Vice President, Finance and CFO of Spruce Falls Inc., an affiliate of Tembec, and in 1997 was promoted to Executive Vice President, Finance and CFO of Tembec.

# Tembec's Leadership



## **Chris Black, Executive Vice President, Forest Products, Pulp and Paper**

Mr. Black was appointed to this position in 2013, and has held progressively more senior roles since joining Tembec in 2000 as Vice President, Sales and Marketing, Newsprint. He previously held marketing, sales and general management positions with Navistar, and finance and marketing positions with Kimberly-Clark. He is a graduate of York University with a B.A. in Economics (1980) and an M.B.A. (Finance) also from York University (1982).



## **Christian Ribeyrolle, Executive Vice President, Specialty Cellulose**

Mr. Ribeyrolle was appointed to this position in 2013, and has held progressively more senior operational management and management positions since joining Tembec in 2003 as Manager of the mill in Tartas, France. He holds a chemical engineering degree from l'École Nationale Supérieure de Chimie de Clermont-Ferrand in France. Since 2009 he has held the position of President, Tembec France SAS.



## **Marcus Moeltner, Vice President Business Development**

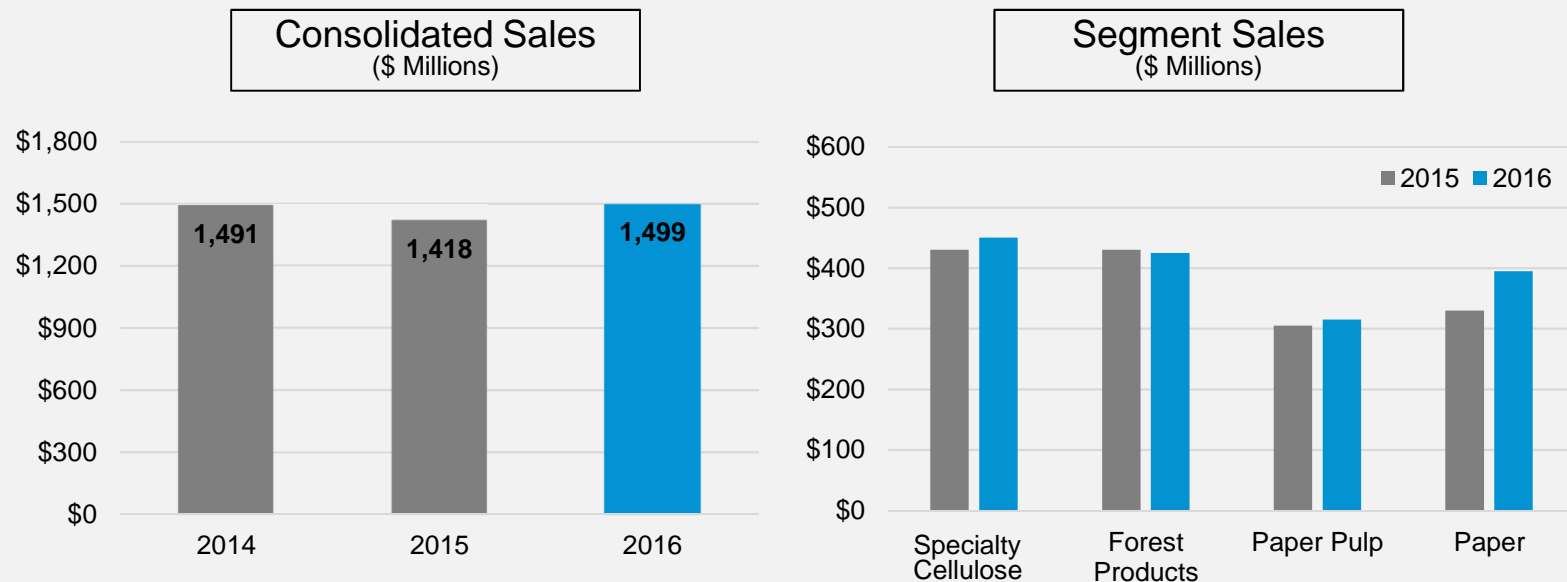
Mr. Moeltner was appointed to this position in 2011. He began his career with Kimberly-Clark and over 12 years held financial positions of increasing responsibility. He joined Tembec in 2000 and became Vice President Corporate Development in 2004. From 2005 to 2008 he was Vice President Finance of Grant Forest Products, then rejoined Tembec in May 2008. He holds an Honors Bachelor of Commerce (1987) degree from Laurentian University and has a Certified Management Accountant (CMA) designation (1992).

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# Financial Performance

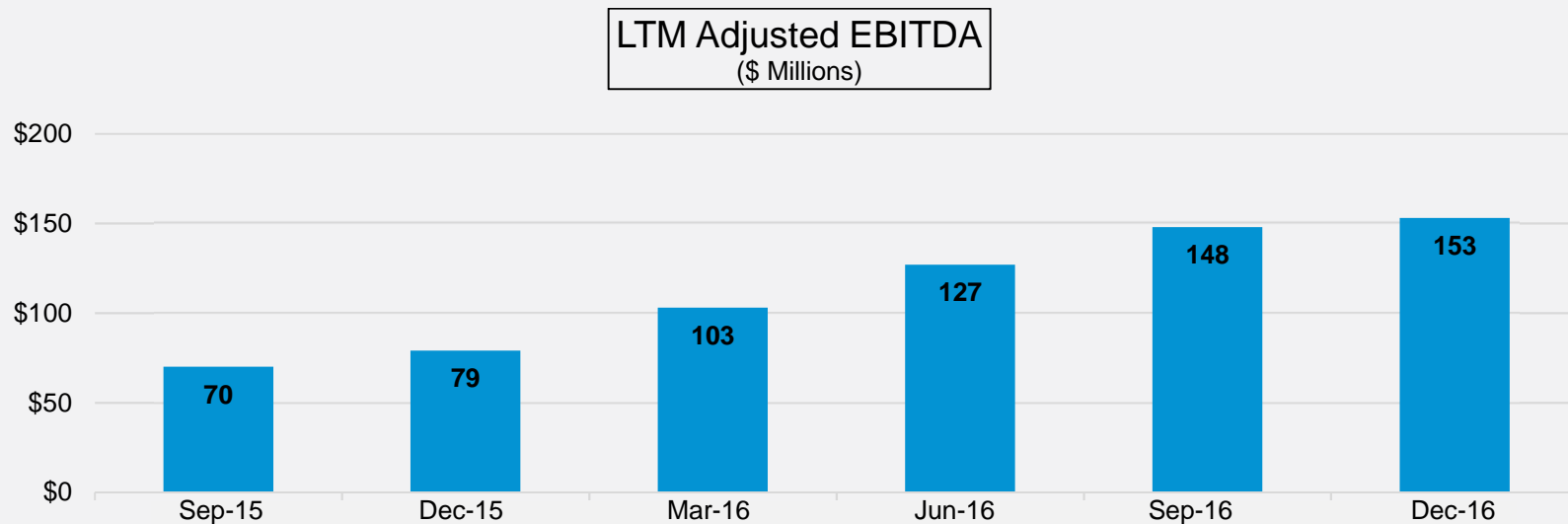
# Consolidated Sales

- Total sales of \$1.5 billion in Fiscal 2016, representing a 6% increase compared to Fiscal 2015.
- Sales increased by \$81 million due to higher shipments of specialty cellulose pulp, paper pulp and coated bleached board.
- All business segments benefited from weaker Canadian dollar, which averaged 7.7% lower versus the US dollar.



# Adjusted EBITDA Growth

- Adjusted EBITDA in Fiscal 2016 was \$148 million, compared to \$70 million in Fiscal 2015.
- In Fiscal 2016, Adjusted EBITDA margin was 9.9%, compared to 4.9% in Fiscal 2015.
- Adjusted EBITDA in Fiscal 2016 was the highest both in terms of amount and percent of sales since the recession of 2009.
- Continued improvement expected in Fiscal 2017



# Significant Cost Reduction

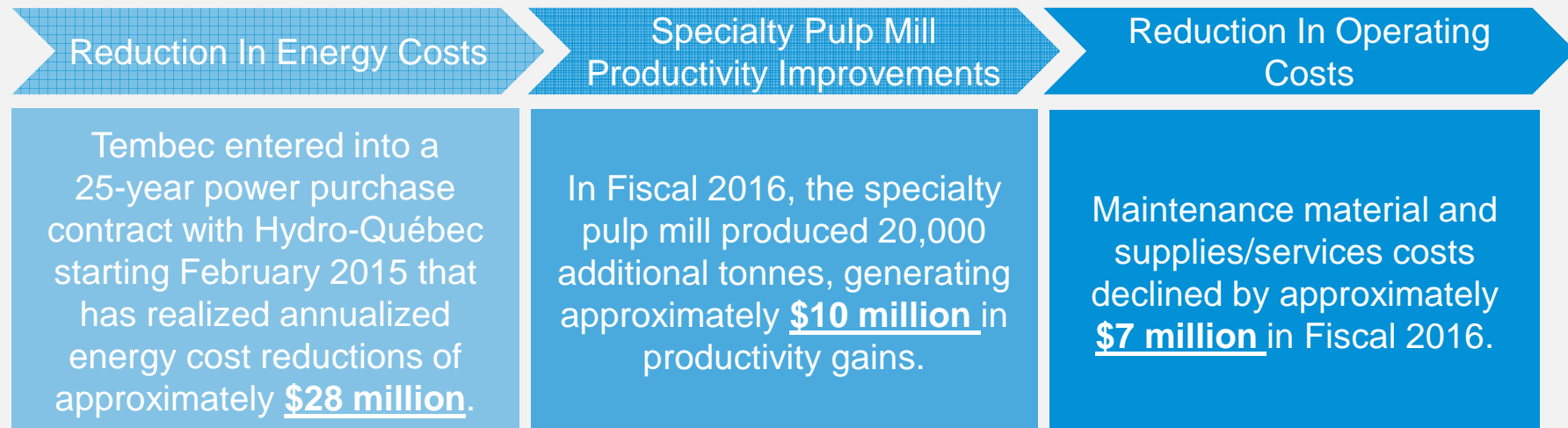
- Increase in adjusted EBITDA was driven by \$88 million of cost and productivity improvements in all four-business segments in Fiscal 2016.
- The effect of price and currency was negligible.

	Adjusted EBITDA Year Over Year Change (\$ Millions)		
	Price/Fx	Cost	Var.
Forest Products	(4)	8	4
Specialty Cellulose	4	44	48
Paper Pulp	(18)	14	(4)
Paper	12	22	34
<b>Adjusted EBITDA Impact</b>	<b>(6)</b>	<b>88</b>	<b>82</b>



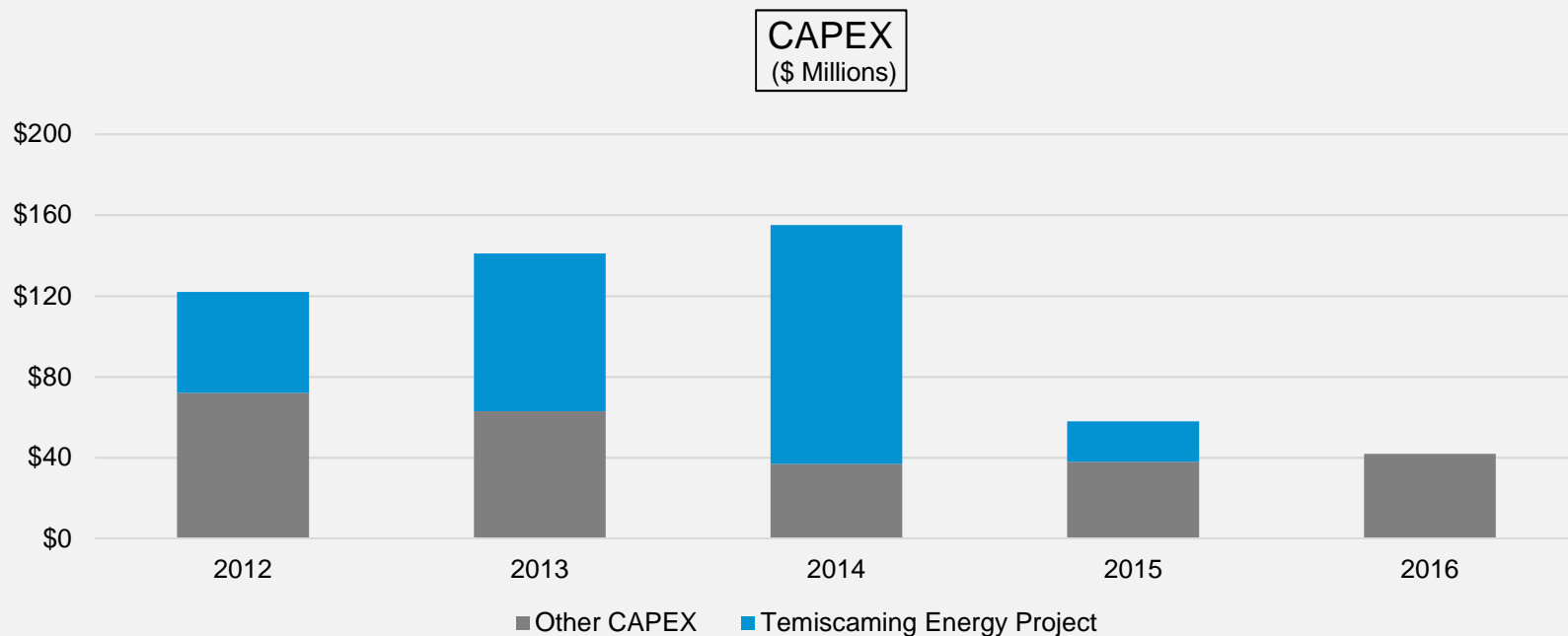
# Temiscaming Energy Project

- Between 2012 and 2015, Tembec invested approximately \$300 million in a game-changing project (“Temiscaming Energy Project”) to upgrade the Company’s specialty cellulose manufacturing facility located in Temiscaming, Quebec.
- The investment solidified Tembec’s position as a top global producer of specialty cellulose.
- Temiscaming Energy Project has benefited Tembec in three principal areas:



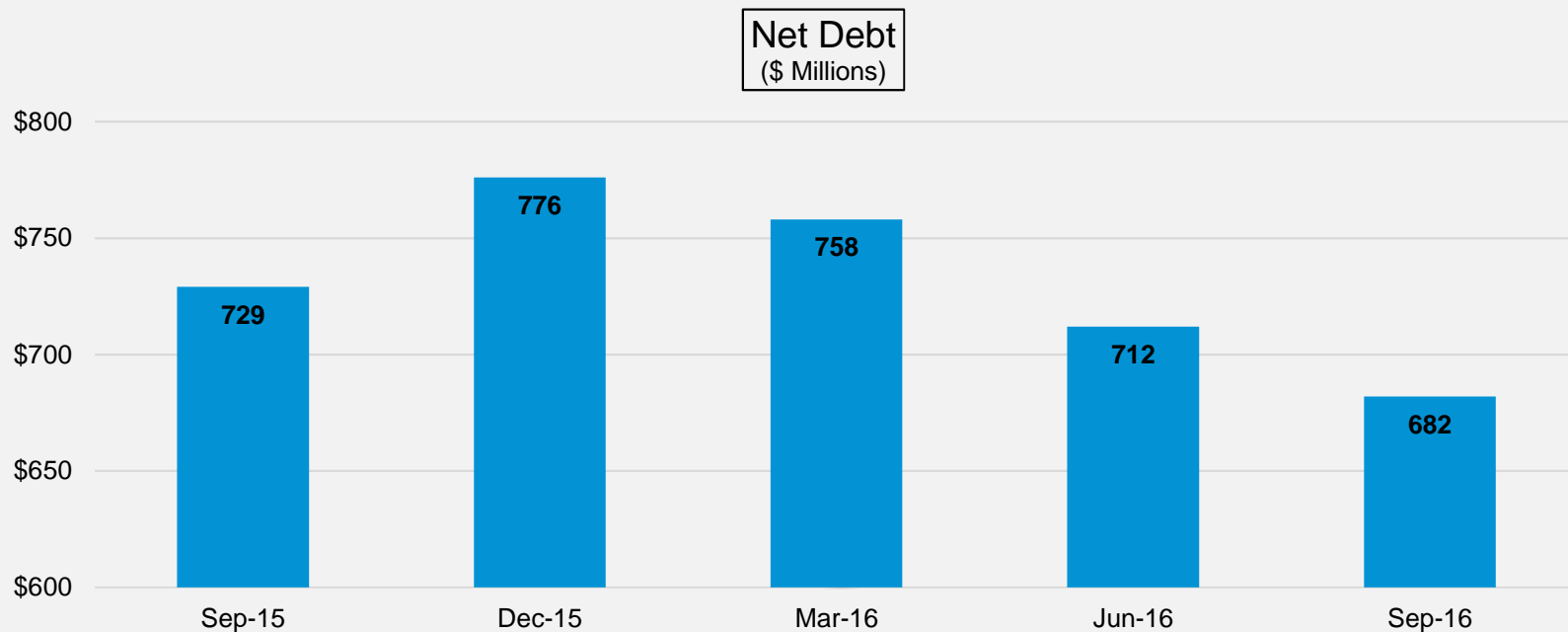
# Return to Normal Level of Capital Expenditures

- Capital expenditures (CAPEX) have returned to more normal levels of \$40 million to \$45 million per year.
- Tembec is well positioned to reap the financial benefits of Temiscaming Energy Project while remaining at a more normal CAPEX level for the next several years.



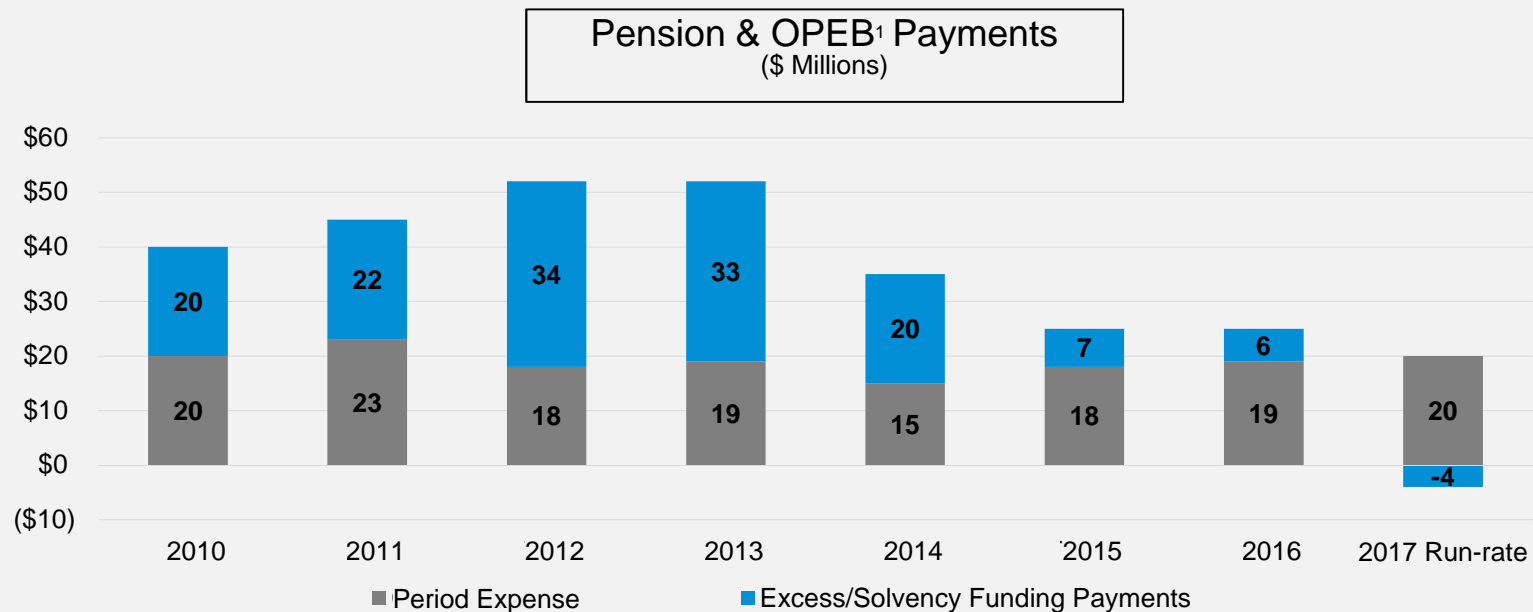
# Reduced Debt

- Tembec reduced net debt by \$94 million over nine-months from December 2015 to September 2016 and expects continued progress in 2017.
- Significantly higher adjusted EBITDA combined with lower CAPEX has led to improvements in Tembec's credit/risk profile.



# Well-Funded Pension Plans

- Decline in interest rates led to significant defined benefit (DB) pension solvency payments in the 2010-2014 period.
- DB pension plans are now well funded.
- Fiscal 2017 forecast total funding of \$16M represents significant reduction from +\$50M in Fiscal 2012 and Fiscal 2013.



<sup>1</sup> Other Post-Employment Benefits

# Recent Results

Last twelve-months (LTM) adjusted EBITDA reached \$153 million in December 2016, demonstrating the positive impact on margins generated by the Temiscaming Energy Project as well as other cost reduction initiatives.

## December 2015 Quarter vs. December 2016 Quarter

<i>(\$ Millions)</i>	Dec-15	Dec-16
Sales	354	370
Adjusted EBITDA	29	34
Adjusted EBITDA Margin %	8.2%	9.2%
LTM (Last Twelve Months) Adjusted EBITDA	79	153
Net Debt	776	689
Net Debt to LTM Adjusted EBITDA (times)	9.8	4.5

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# Driving Value for Shareholders

## 3-Year Plan

# Driving Value for Shareholders

## 3-Year Plan

### Continued Improvement in Specialty Cellulose adjusted EBITDA margins

- Over the last few years, Tembec focused its capital investments in specialty cellulose, mainly investing approximately \$300 million in the Temiscaming Energy Project. As a result, Tembec was able to improve its cost and productivity.
- The benefits of the Temiscaming Energy Project are now being realized and will continue to significantly impact the financial results of the Company's Specialty Cellulose Pulp segment going forward.
- We believe we can achieve additional adjusted EBITDA margin improvements by continuing to focus on productivity improvements and reducing costs.
- In addition, Tembec's Specialty Cellulose markets are growing and prices are improving. Tembec expects continued improvement in adjusted EBITDA margins over the next three years.

The objective is to drive Specialty Cellulose adjusted EBITDA margins in excess of 25%.

# Driving Value for Shareholders

## 3-Year Plan

### Reduce Debt and Lower Interest Costs

- Balance sheet deleveraging remains the main priority for Tembec.
- Higher level of adjusted EBITDA generation will help the Company reduce its overall level of indebtedness.
- Tembec expects that lowering the Company's level of indebtedness will improve its credit ratings and lower interest costs.
- Tembec will be well positioned when the time comes to refinance its secured notes.

The objective is to reduce net debt to \$500 million or less.



# Driving Value for Shareholders

## 3-Year Plan

### Sawmill Modernization

- Over the next three years, Tembec will focus on a business improvement plan for lumber that will invest \$50 million into sawmill modernization and improve the competitiveness of the sawmills.
- The plan includes investments in high return/low risk projects with attractive paybacks. Sawmill modernization is focused on 'low-hanging fruit,' such as investments in new log scanning and optimization technology.

The objective is to increase annual adjusted EBITDA by \$35 million from this \$50 million investment.

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# Segment Outlook

# Segment Outlook

## Specialty Cellulose

- The outlook is strong for 2017 as Tembec expects to see an increase in specialty cellulose volumes.
- Ethers grade volumes and prices will increase. High-quality cotton linter pulp availability is down and prices are up.
- Reduced availability of lower quality cotton linter pulp and higher demand for commodity/viscose pulp are having positive effect on prices. This in turn supports higher prices for microcrystalline cellulose, nitro-cellulose and other specialty grades.
- Exception will be acetates grades – basically flat demand for acetate tow – market leader has guided small price decrease in calendar 2017.

# Segment Outlook

## Forest Products

- Tembec expects to see a gradual demand and price increase as U.S. housing continues to recover.
- Tembec has the opportunity to improve cost position of sawmills with fast returning small CAPEX investments.
- Potential lumber dispute with U.S. and the possibility of lumber export duty deposits are creating short-term uncertainty.
- Canadian producers did relatively well financially in previous duty deposit period (2002–2006), 80% was refunded in late 2006.

# Segment Outlook

## Paper Pulp

- High-yield pulp (HYP) market tight; pricing at peak levels (C\$) and forecast to remain through fiscal 2017
- No HYP capacity additions planned over the next several years, which will assist in keeping market in balance
- Major use for HYP is packaging where Chinese market strong and expected to remain robust; secondary use of HYP is printing and writing papers, which is expected to be flat to slight growth in China and declining balance of the world
- HYP market influenced by Bleached Eucalyptus Kraft (BEK) and BEK market currently strong, but concerns that market needs to absorb ~ 4 million tonnes coming on stream in 2017

# Segment Outlook

## Paper

- Newsprint market benefited by \$75/mt increase in 2016, however structural decline of 8-9% expected over long term
- Due to Tembec's low cost position, newsprint mill profitable at these levels, however, capacity will always have to adjust to the decline in demand to maintain pricing
- Coated bleached board business is concentrated with few producers and disciplined market supply dynamics
- Coated bleached board pricing remains robust which may encourage additional off shore entry and/or North American expansion

# Why Invest in Tembec?

- 1 Tembec's leadership team has the necessary experience and competence to create value.
- 2 Tembec's management has demonstrated capital allocation expertise and a willingness to take decisive action to dispose of or reinvest in assets and business lines.
- 3 Tembec has a product portfolio that includes leadership position in cellulose ethers and mitigates macro risks and earnings volatility traditionally associated with commodity-based businesses.
- 4 Tembec has established a new foundation from which to drive earnings.

# Analyst Information



Sean Steuart – (416) 308-3399, [sean.steuart@tdsecurities.com](mailto:sean.steuart@tdsecurities.com)

Kasia Trzaski Koptyek – (416) 983-4058, [kasia.trzaski@tdsecurities.com](mailto:kasia.trzaski@tdsecurities.com)



Paul C. Quinn – (604) 257-7048, [paul.c.quinn@rbccm.com](mailto:paul.c.quinn@rbccm.com)



Kevin Cohen – (212) 351-9774, [kcohen@imperialcapital.com](mailto:kcohen@imperialcapital.com)

Jonathan Jenson – (212) 351-9488, [jjenson@imperialcapital.com](mailto:jjenson@imperialcapital.com)



# Contact

**Michel Dumas**  
**Executive Vice President,**  
**Finance and Chief Financial**  
**Officer**

michel.dumas@tembec.com  
Telephone: 819-627-4268