

# Deutsche Bank 2016 Leveraged Finance Conference

September 2016



**Rooted in tomorrow.**

- James M. Lopez
  - President and Chief Executive Officer
  
- Michel J. Dumas
  - Executive Vice President and Chief Financial Officer

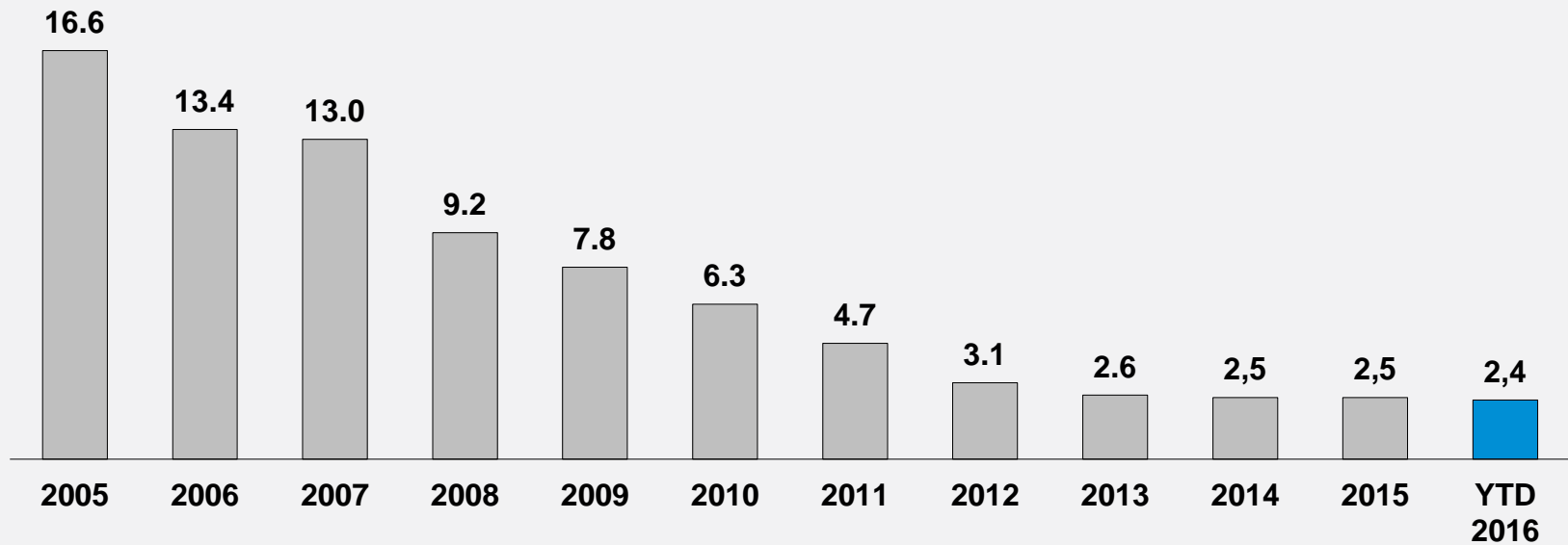
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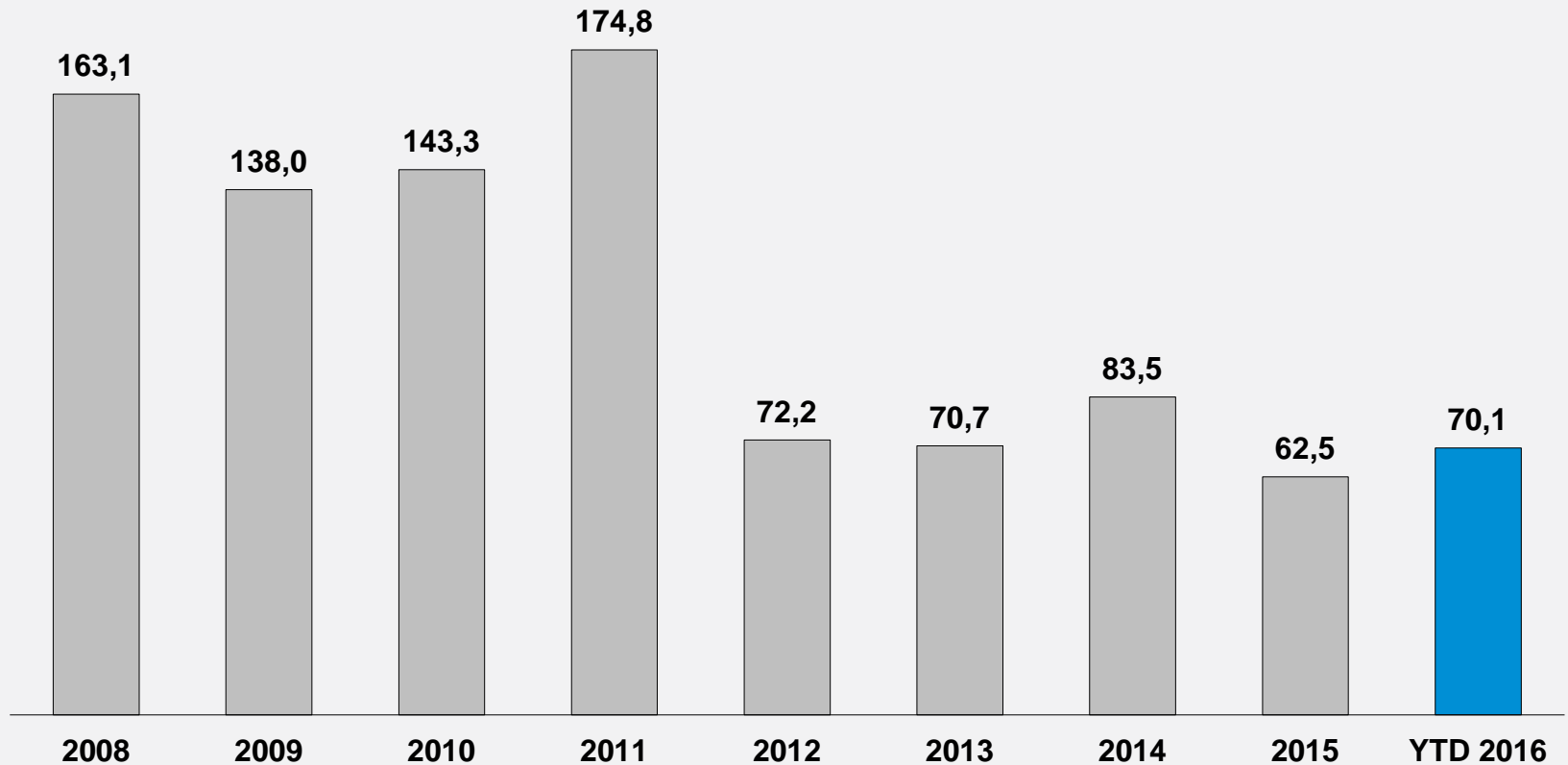
The Company’s financial results have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). All financial references are stated in Canadian dollars, unless otherwise noted. All references to quarterly information relate to Tembec’s fiscal quarters. Adjusted EBITDA and certain other financial measures utilized in the presentation are non-IFRS financial measures. As they have no standardized meaning prescribed by IFRS, they may not be comparable to similar measures presented by other companies. Non-IFRS financial measures are described in the Definitions section on the last page of the interim Management Discussion and Analysis (MD&A) and on the last two pages of this presentation.

The information contained in this presentation is current only as of its date and has not been, and unless required pursuant to applicable securities laws, will not be, updated to reflect any changes or facts or circumstances that occurred after such date that may make such information inaccurate or incomplete. In addition, the market data included in this presentation, including information related to the Company’s relative position in the industry, is based on internal studies, market research and publicly available information and industry publications. Although the Company believes that such studies, research, information and publications are reliable as of the date of this presentation, they may prove to be inaccurate because of the method by which the Company obtained some of the data for its estimates or because this information cannot always be verified with certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. In addition, the Company has not independently verified any of the data from third-party sources nor has it ascertained the underlying economic assumptions relied upon therein. As a result, market, ranking and other similar industry data included in this presentation, and estimates and beliefs based on the data, may not be accurate and complete.

# Safety – OSHA Incident Rate

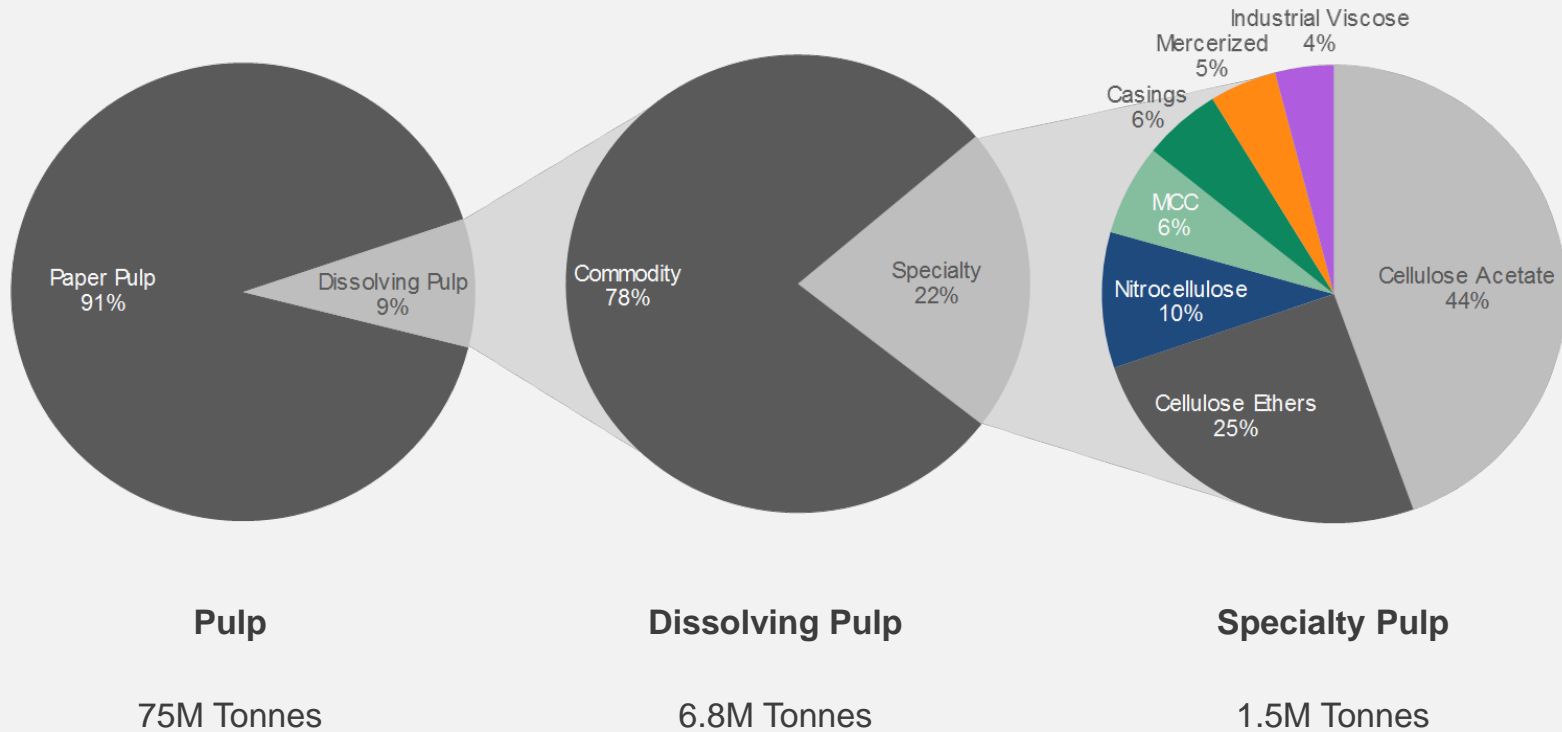


# Safety – Total Severity Rate



# Business Segment Overview

# Specialty Cellulose



# Specialty Cellulose

## Cellulose ethers



## Cellulose acetate



## Nitrocellulose



## MCC



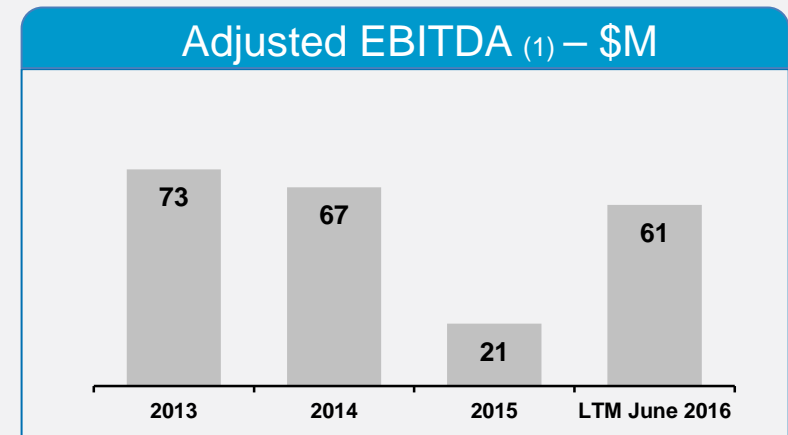
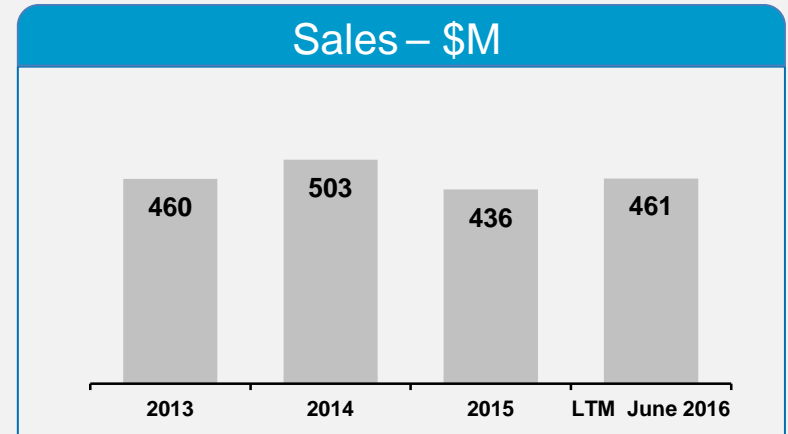
## Others





# Specialty Cellulose

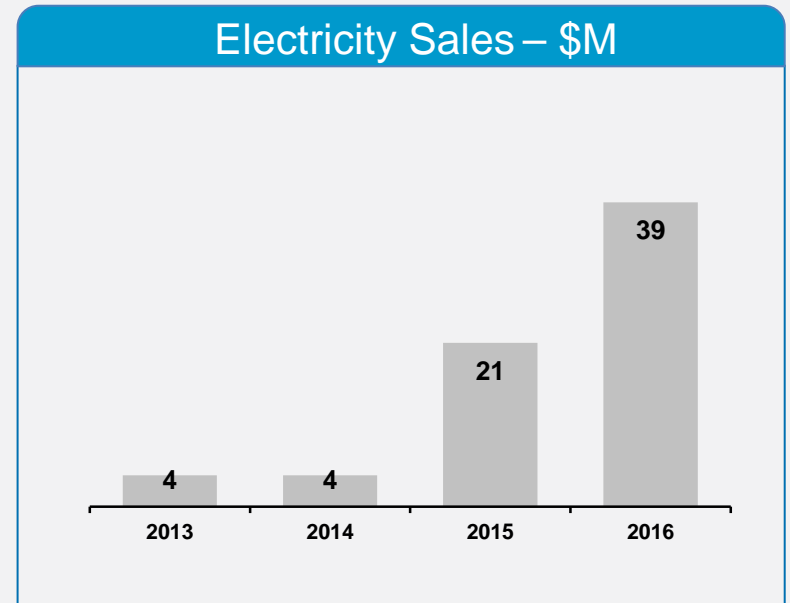
- Currently operating 2 softwood specialty cellulose mills – one in Canada and one in France – approximately 280,000 TPY of pulp sales
- Segment includes smaller silvichemical and resin business
- Recent improvement in profitability due to cost reduction – invested C\$300M in the new Temiscaming boiler and turbine
- Reduced energy cost by approximately \$28M – total cost savings of \$40M including maintenance cost reductions and productivity gains



(1) Non-IFRS financial measure. See appendix.

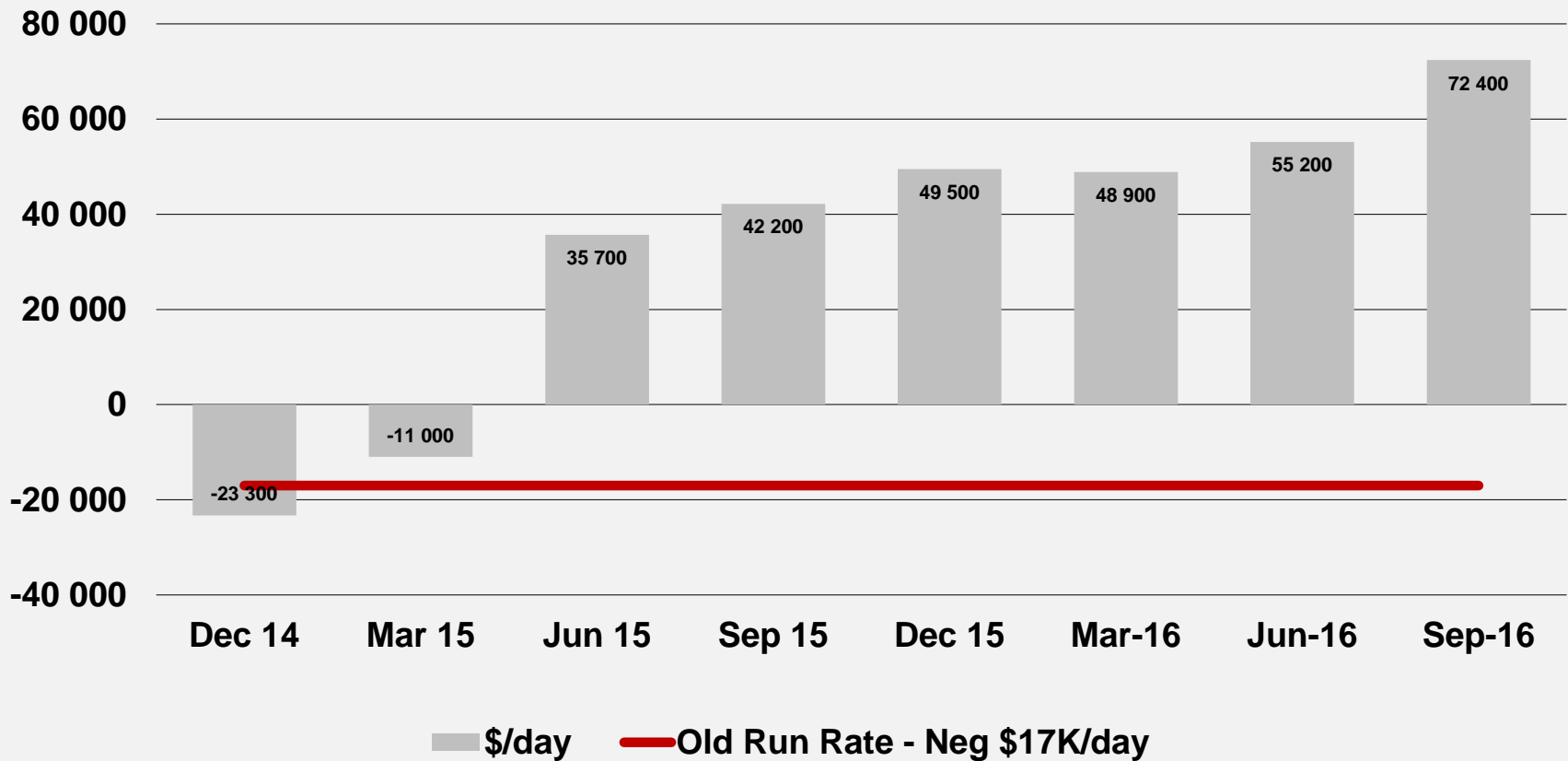
# Temiscaming Cogen Project

- Electricity sold to provincial utility under a long-term PPA - 25 years starting in February 2015
- Green power rate indexed to inflation – currently receiving C\$103 per megawatt
- Burning 75% renewable fuel (sulfite liquor and bio-mass) generated primarily from company operations – can burn natural gas but not exceeding 25% of fuel sources



# Temiscaming Cogen Project

Quarterly Electricity Revenues Less Purchased Nat Gas – \$/day

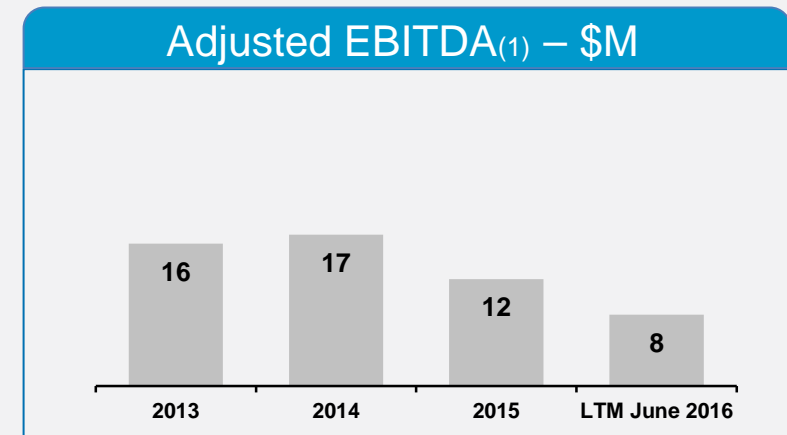
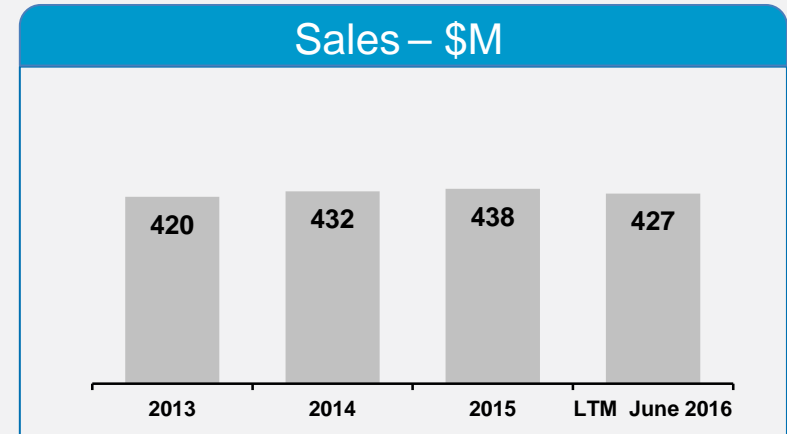


# Market Conditions – Specialty Cellulose

- Expect to see increase in specialty cellulose volumes
- Ethers grade volumes and prices should increase – high quality cotton linter pulp availability 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 prices for MCC, nitro-cellulose and other specialty grades
- Exception will be acetate grades – flat demand for acetate tow – market leader has guided small price decrease in calendar 2017

# Forest Products

- Currently operating 7 Eastern Canadian sawmills – approximately 750 million board feet of SPF lumber sales
- The relatively slow pace of recovery in US housing as led to extended period of relatively poor lumber prices – stud lumber prices more affected versus random lengths/larger dimension lumber
- The cost of timber in Quebec has increased – negative effect on margins of 3 sawmills located in the province
- The Company expects to complete the sale of a Quebec sawmill in the near term



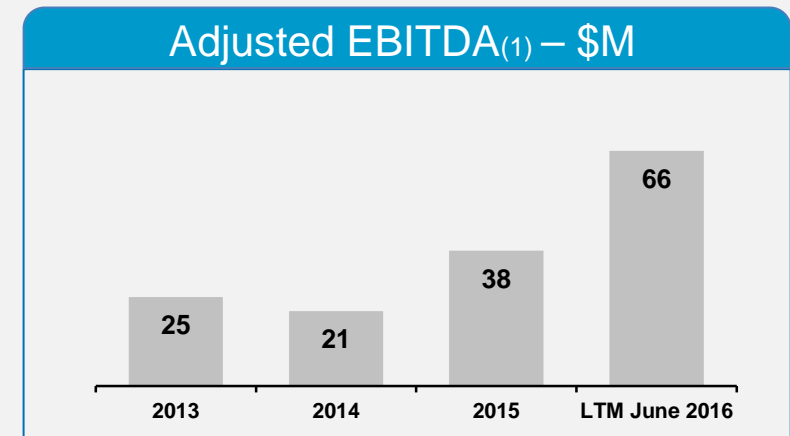
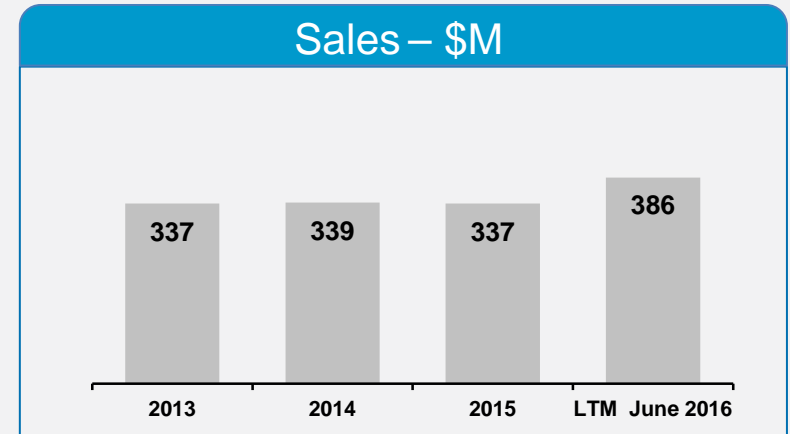
(1) Non-IFRS financial measure. See appendix.

# Market Conditions - Lumber

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

# Paper

- Currently operating a 3-ply coated bleached board mill (180,000 TPY) and a 2-machine newsprint mill (220,000 TPY)
- Both mills located in Canada – have benefited from the weakening C\$
- The coated bleached board business generating most of the profits – machine capable of producing wide range of products – diversified customer mix
- Newsprint mill is low cost - integrated with Company's sawmill wood chip production



(1) Non-IFRS financial measure. See appendix.

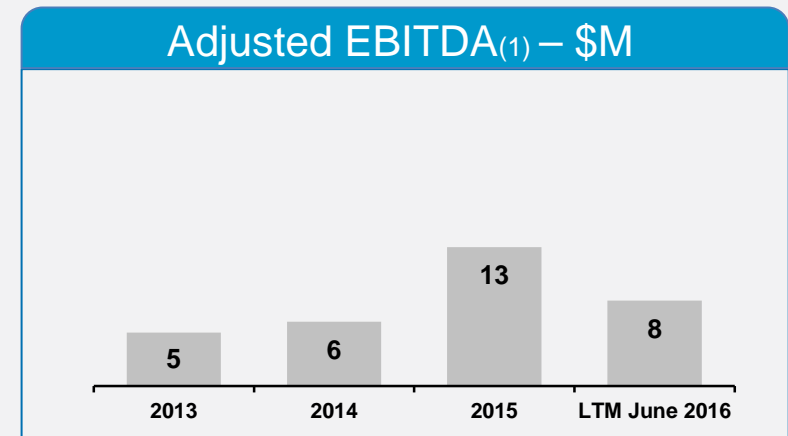
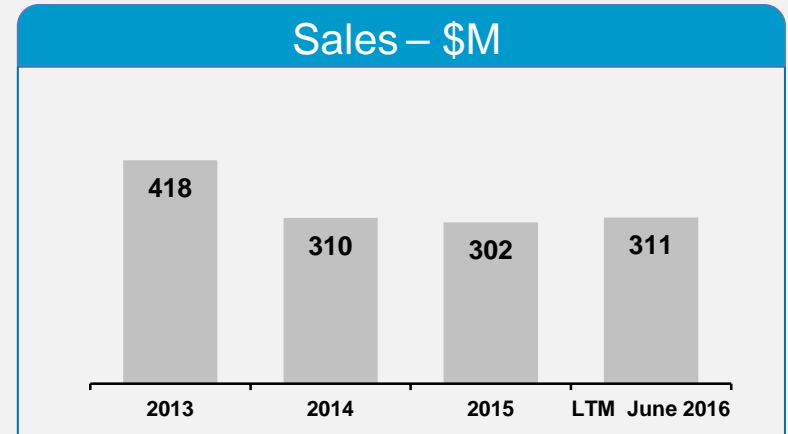
# Market Conditions - Paper

- Coated bleached board business is concentrated with relatively few producers – pricing has been stable
- Some European volume coming into NA since Euro weakened – some pricing pressure but not overly disruptive
- Newsprint prices have seen some recent increases – but not demand related
- Newsprint fundamentals remain relatively poor – need to be low cost to produce positive margins



# Paper Pulp

- Currently operating 2 high-yield hardwood pulp mills (570,000 TPY)
- Both mills located in Canada
- High-yield pulp mills are modern and efficient – low manpower and low CAPEX
- Business is extremely export oriented – China – Korea – Western Europe
- Hardwood markets have been challenging – large new low-cost South-American bleached eucalyptus kraft (BEK) pulp mills



(1) Non-IFRS financial measure. See appendix.

# Market Conditions – Paper Pulp

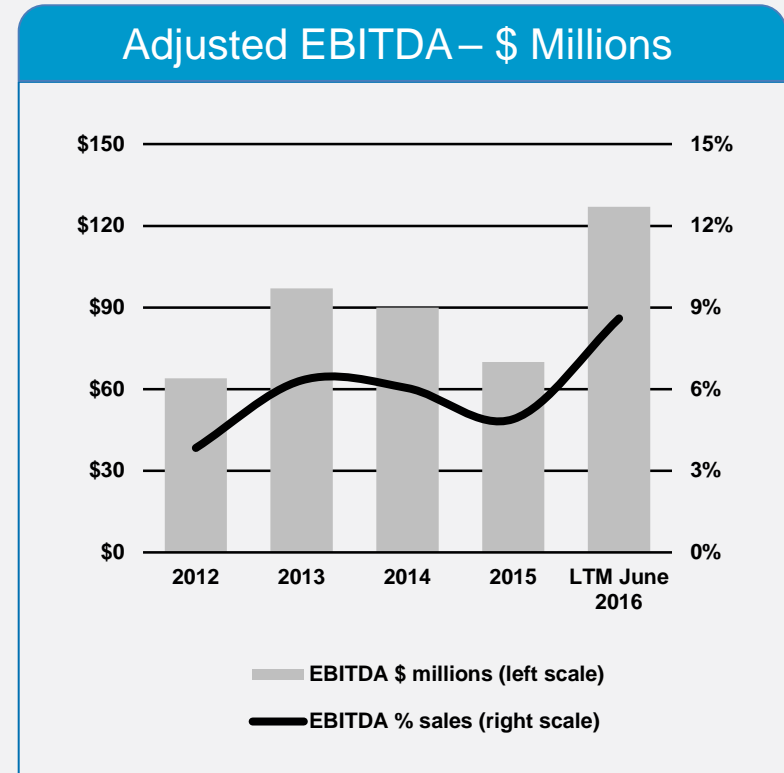
- Demand should continue to grow
- But current and planned BEK capacity expansions will result in significant supply growth as well
- South American producers also benefiting from weaker currency position versus US\$
- Significant upside to higher prices but conditions expected to remain challenging
- Currently benefiting from good demand for Chinese packaging that uses high-yield maple grades – Tembec only producer

# Consolidated Results

# Consolidated Financial Results

## Adjusted EBITDA<sup>(1)</sup>

- LTM adjusted EBITDA of \$127M compared to \$70M in Fiscal 2015
- Adjusted EBITDA margin of 8.6% compared to 4.9% in Fiscal 2016
- Fiscal 2016 will be highest adjusted EBITDA in terms of both \$ and % of sales since recession of 08/09
- Improvement in Specialty Cellulose segment and Paper segment profitability
- Reduced costs in all 4 business segments



(1) Non-IFRS financial measure. See appendix.

# Consolidated Financial Results

## Operating Results

- Higher depreciation expense relates to the Temiscaming Cogen facility – 30 year useful life
- Fiscal 2014 results included a large gain related to the sale of timberlands in British Columbia

### Operating Earnings – \$ Millions

	<u>2014</u>	<u>2015</u>	<b>9 mths <u>2016</u></b>
Adjusted EBITDA <sup>(1)</sup>	90	70	<b>91</b>
Depreciation	(37)	(43)	<b>(38)</b>
Gain on Sale of Assets	49	1	<b>6</b>
Other Operating Items	(14)	3	<b>(2)</b>
Operating Earnings	<u>88</u>	<u>31</u>	<u><b>57</b></u>

(1) Non-IFRS financial measure. See appendix.

# Consolidated Financial Results

## Net Earnings (Loss)

- Higher interest & financing expense due to increased borrowings
- Income tax expense relates to French operations
- No taxes payable on Canadian operations – significant tax sheltering is available

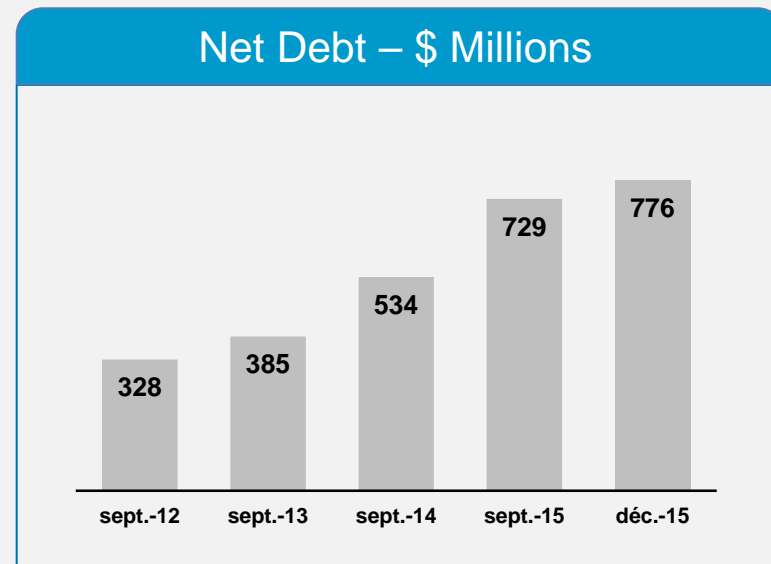
### Net earnings (Loss) – \$ Millions

	2014	2015	9 mths 2016
Operating Earnings	88	31	<b>57</b>
Interest & Fin. Costs	(33)	(54)	<b>(57)</b>
Loss on Debt Refi		(37)	-
Gain (Loss) on US\$ Debt	(26)	(81)	<b>14</b>
Income Tax Expense	(20)	(9)	<b>(6)</b>
Net Earnings (Loss)	<u>9</u>	<u>(150)</u>	<u><b>8</b></u>

# Consolidated Financial Results

## Net Debt<sup>(1)</sup>

- Net debt increased by \$448M between September 2012 and December 2015
- Invested \$300M in Temiscaming Cogen facility – CAPEX and capitalized interest
- Invested \$200M in other CAPEX over the last 5 years
- Also recorded \$132M of non-cash translation losses on US\$ denominated debt due to weakening C\$

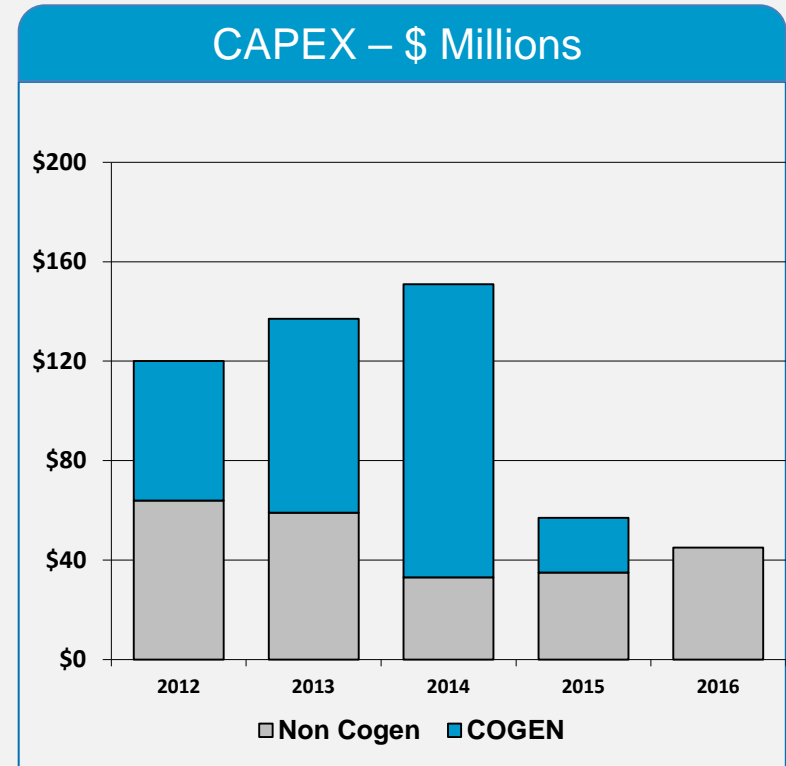


(1) Non-IFRS financial measure. See appendix.

# Consolidated Financial Results

## CAPEX

- Temiscaming Cogen project led to significant annual CAPEX in 2012 to 2014 period
- Project was also very long in terms of lead time – 3 ½ years of construction and 1 year of start-up before seeing full financial benefit
- Have now returned to more normal levels of CAPEX \$35M to \$45M per year

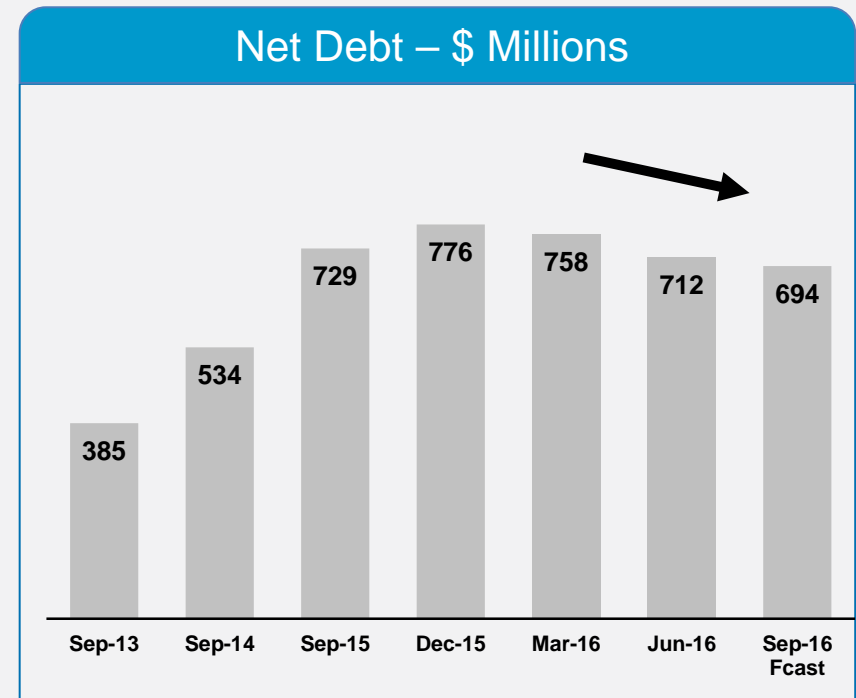




# Consolidated Financial Results

## Net Debt<sup>(1)</sup>

- Company must now focus on reaping the financial benefits of the CAPEX investments and reduce balance sheet leverage
- Good progress being made – anticipate reduction of \$80M over the nine-month period ended September 2016
- Expect continued progress in 2017



(1) Non-IFRS financial measure. See appendix.

**Questions?**

# Appendix – Non-IFRS<sup>(1)</sup> Financial Measures

The following summarizes non-IFRS financial measures utilized in this presentation. As there is no generally accepted method of calculating these financial measures, they may not be comparable to similar measures reported by other companies.

**Adjusted EBITDA** refers to earnings before interest, income taxes, depreciation, amortization and other items. Since the Company excludes “other items” such as gains and losses on significant asset disposals, restructuring charges and custodial costs for permanently idled facilities, it differs from EBITDA. Adjusted EBITDA does not have any standardized meaning according to IFRS. The Company defines adjusted EBITDA as sales less cost of sales and selling, general and administrative expenses, meaning it represents operating earnings before depreciation, amortization and other items. The Company considers adjusted EBITDA to be a useful indicator of the financial performance of the Company, the business segments and the individual business units. The most comparable financial measure is operating earnings or loss. The following table is a reconciliation of operating earnings to the Company’s definition of adjusted EBITDA:

<i>(in millions of dollars)</i>	2014	2015
Operating earnings	88	31
Depreciation and amortization	37	43
Other items	(35)	(4)
<b>Adjusted EBITDA</b>	90	70

(1) International Financial Reporting Standards

# Appendix – Non-IFRS<sup>(1)</sup> Financial Measures

**Net debt** refers to debt less cash, cash equivalents and restricted cash.

**Total capitalization** refers to net debt plus deferred tax liabilities, employee future benefit liabilities, provisions, other long-term liabilities, and shareholders' equity.

**Net debt to total capitalization** is used by the Company to measure its financial leverage.

<i>(in millions of dollars)</i>	2014	2015
Long-term debt	455	613
Net unamortized financing costs	17	14
Current portion of long-term debt	17	11
Operating bank loans / Bank indebtedness	87	114
Less: cash, cash equivalents and restricted cash	(42)	(23)
<b>Net debt</b>	534	729
Long-term liabilities	148	162
Shareholders' equity	219	71
<b>Total capitalization</b>	901	962
<b>Net debt to total capitalization ratio</b>	59%	76%

(1) International Financial Reporting Standards