

Staying Competitive in a Changing Industry

SLMA Spring Meeting – 2019

Savannah, Georgia



The Beck Group

- Forest products planning, consulting & benchmarking services since 1981
- Broad geographic experience
 - U.S. West, South, Canada
 - Overseas
- Forest Products Industry
 - Lumber
 - Panels/engineered wood
 - Pellets
 - Biomass

Big Changes in Southern Pine Lumber Industry

- **Consolidation**
- **Expansion**
- **Modernization**

How will these impact the competitive landscape?

Southern Pine Consolidation - Acquisitions

Year	Location	# of Mills	Seller	Purchaser
2012	U.S. South	5	Temple Inland	Georgia Pacific
2013	Georgia	3	Rayonier	Interfor
2014	Georgia	2	Tolleson - Ilim	Interfor
2014	Georgia	1	Keadle	Interfor
2014	Alabama	3	Scotch & Gulf	Canfor
2014	Georgia	2	Balfour/Beadles	Canfor
2014	Arkansas	1	Bibler Brothers	West Fraser
2014	Arkansas	1	Travis Lumber	West Fraser
2014	Mississippi	1	Southern	Canfor
2014	Georgia, S. Carolina, Washington	3	Simpson	Interfor
2015	Alabama	1	Roy O. Martin	Georgia Pacific
2015	Mississippi, Louisiana	2	Miles Lumber	Hood Industries
2015	Arkansas	1	Price	Interfor
2015	Arkansas	1	Confidential	Conifex
2017	Georgia, Florida	6	Gilman	West Fraser
2018	Arkansas	2	Deltic	Potlatch
2018	Florida, Arkansas	2	Suwannee, Caddo River	Conifex
2018	South Carolina	1	Elliott	Canfor

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Southern Pine Consolidation – Major Players

- West Fraser – 22 mills
- Georgia Pacific – 16 mills
- Canfor – 12 mills
- Weyerhaeuser – 11 mills
- Interfor – 9 mills

Capacity Expansion

Southern Pine Expansion – New Mills (2017-2020)

Company	Location	State	Startup	Capacity (mmbf/yr)
Biewer Lumber	Newton	MS	2017	250
Two Rivers	Demopolis	AL	2017	200
Conifex	El Dorado	AR	2018	180
Weyerhaeuser	Dierks	AR	2018	80
Georgia Pacific	Talladega	AL	2018	230
West Fraser	Opelika	AL	2018	75
Vicksburg FP	Vicksburg	MS	2018	100
Klausner	Enfield	NC	2018	350
Rex Lumber	Troy	AL	2019	240
Tolko/Hunt	Urania	LA	2019	200
Weyerhaeuser	Millport	AL	2019	215
Angelina FP	Lufkin	TX	2019	220
Georgia Pacific	Warrenton	GA	2019	250
Westervelt	Southern	AL	2019	250
Georgia Pacific	Albany County	GA	2019	300
Canfor	Washington	GA	2020	275
Total				3,415

Southern Pine Expansion

- 16 new sawmills – 3.4 Billion BF
- More greenfield mills TBA
- Hundreds of millions being spent at existing mills
 - New/converted dry kilns
 - New sawing and planing equipment
 - Longer operating hours
- **5-6 Billion BF added capacity**

Southern Pine Expansion

- 2016 SYP Production: 17 Billion BF
- 5 Billion BF = 30% expansion
- 6 Billion BF = 35% expansion








Southern Pine Expansion

North American Softwood Lumber Production and Consumption

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Canadian Production	18.8	22.1	22.0	23.2	24.4	24.6	26.7	28.3
- British Columbia	9.7	11.4	12.0	12.3	12.7	12.6	13.2	13.6
- East of Rockies	9.1	10.6	10.0	10.9	11.7	12.0	13.5	14.8
U.S. Production	23.4	24.8	26.5	28.3	31.6	31.6	31.6	32.7
- West	10.4	11.1	11.6	12.6	13.5	14.1	13.5	13.9
- South	11.8	12.4	13.5	14.3	16.7	16.1	16.7	17.3
- Other	1.3	1.3	1.4	1.4	1.5	1.5	1.5	1.5
Total N.A. Production	42.2	46.9	48.5	51.5	6 Billion BF < 10%			61.0
Exports	3.7	5.1	7.0	6.9	7.3	6.6	6.3	5.9
Imports	0.9	0.8	0.8	0.7	0.8	1.0	1.1	1.4
Apparent Consumption	39.4	42.6	42.3	45.3	49.5	50.6	53.1	56.5

Competitive Landscape

Key Metrics Are Moving

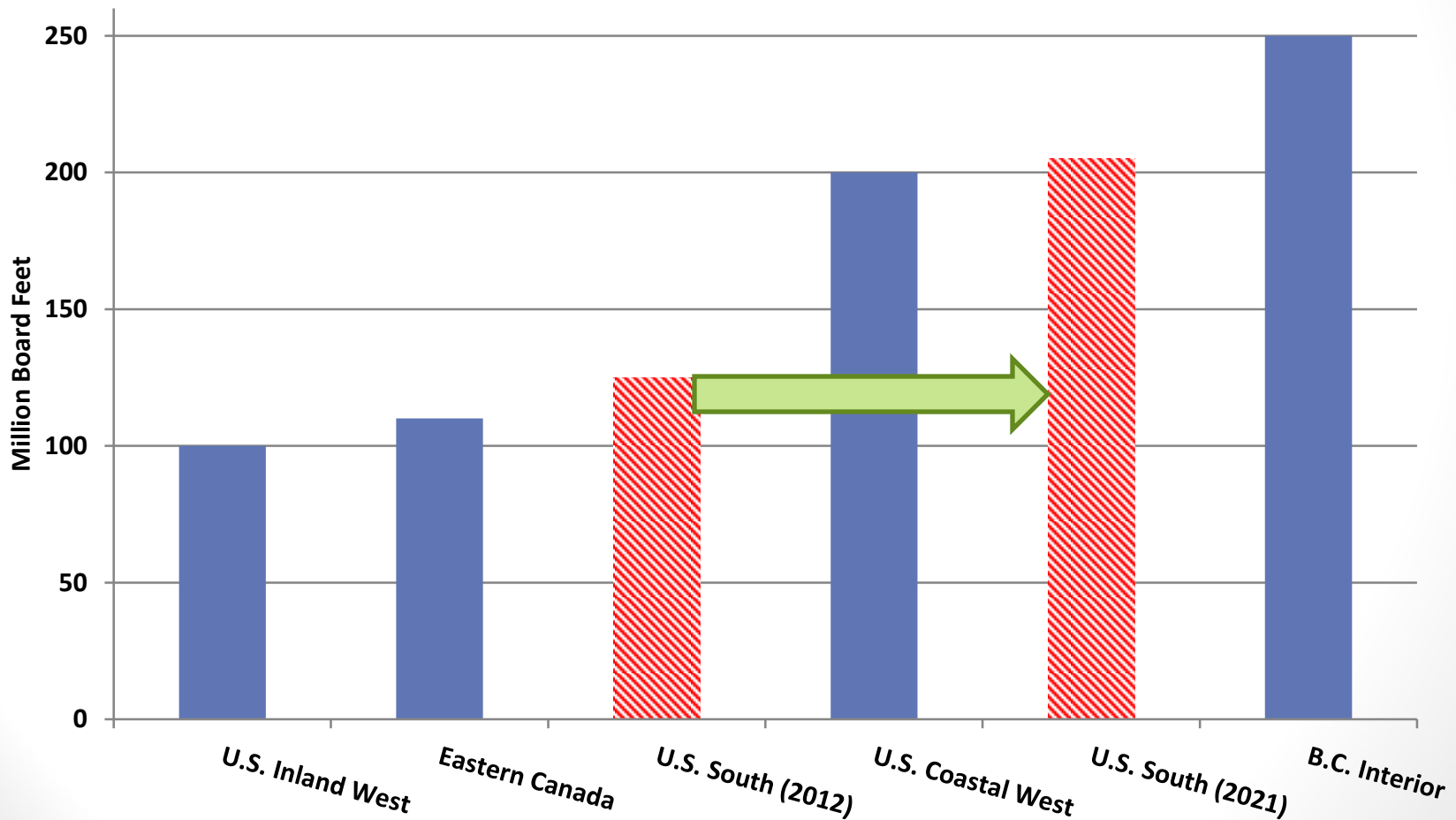
- Scale 
- Productivity 
- Technology 
- Unit manufacturing costs 
- Tons of logs per bf lumber 
- Log procurement circle 
- Delivered log costs 

Southern Pine Expansion – New Mills (2017-2020)

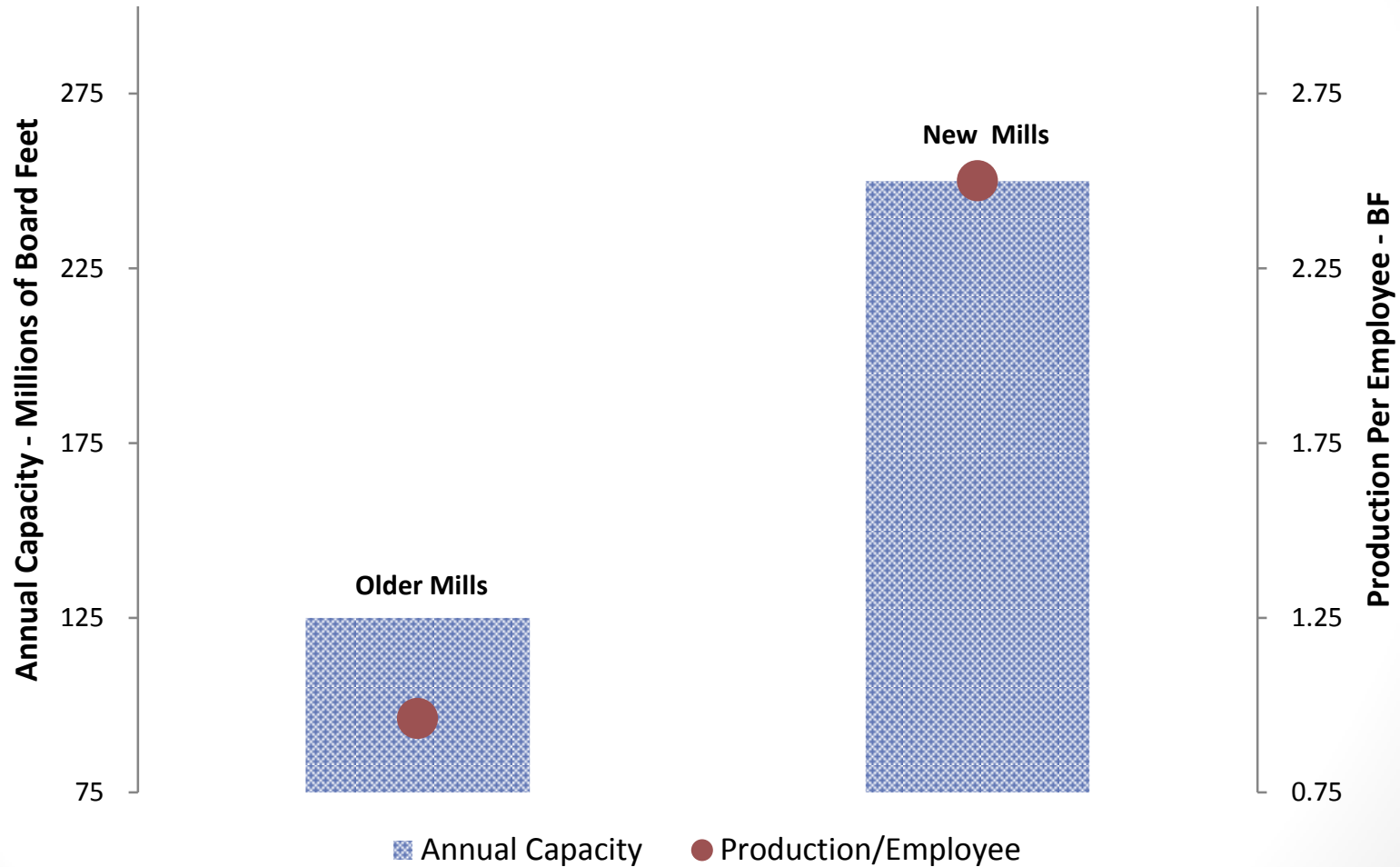
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Total				3,215

Mill Scale Increasing

Average Annual Sawmill Production by Region



Productivity Increasing



Unit Manufacturing Costs

- Larger scale => lower fixed costs
- Higher productivity => lower labor costs
- With such dramatic change in scale and productivity, how will manufacturing costs at new mills compare?

Lumber Yield

- Dramatic improvements in yield over past 20 years
- Many yield technologies already in place at existing mills
 - Optimization at most major machine centers
 - Curve sawing
- Newest mills will achieve incremental improvement
 - Auto-log rotation
 - Optimized bucking
 - Higher resolution scanning/optimization

Delivered Log Costs

- Higher annual production = larger procurement working circle
- Longer haul distance = higher cost
- New logging and trucking capacity needed
- Increased log consumption will drive stumpage prices up

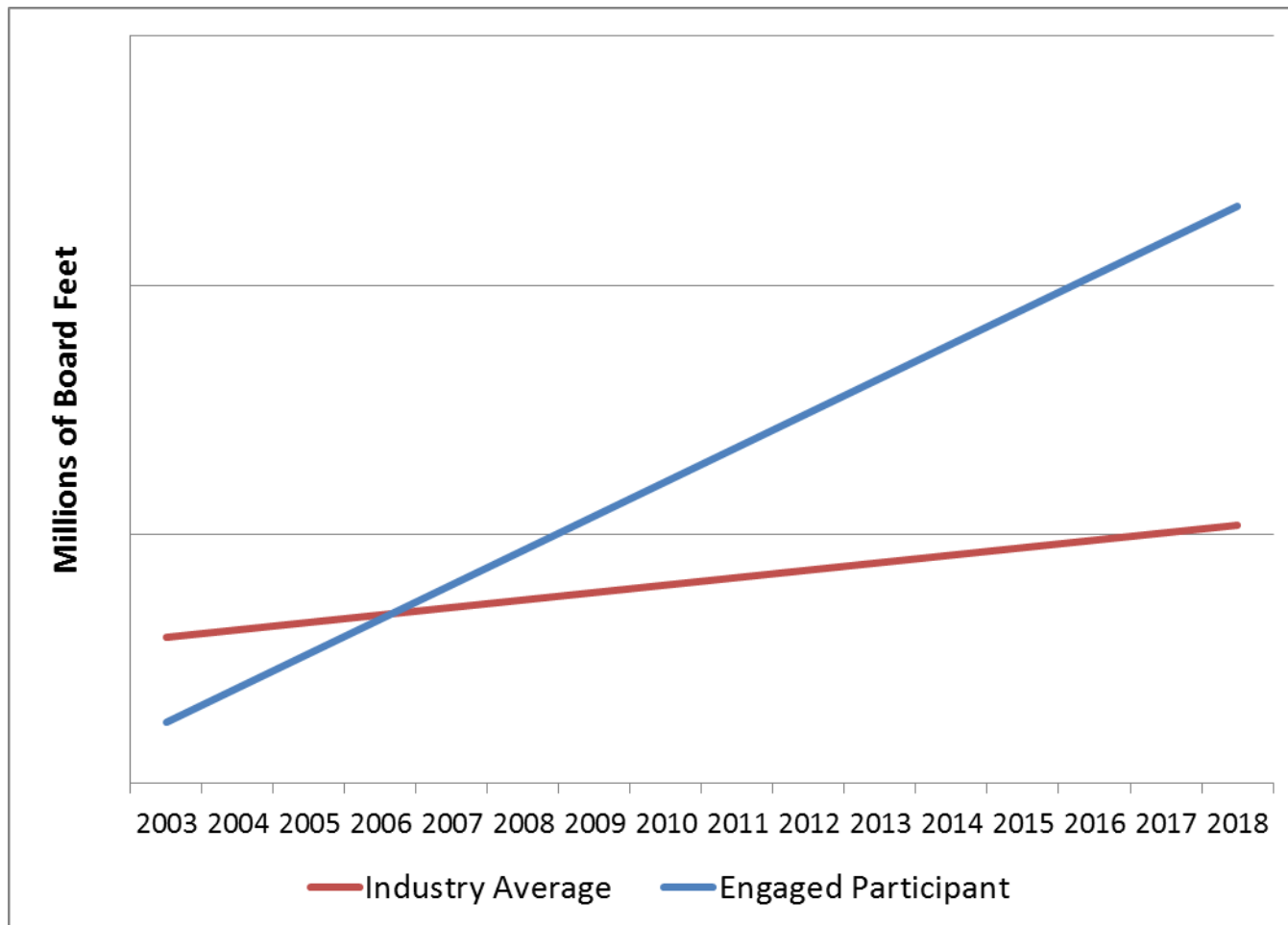
Evaluating Your Competitive Position

- Obtain reliable, consistent data
- Diverse sampling
- Entire business
 - Lumber and byproduct sales
 - Yields
 - Manufacturing costs
 - Log costs
 - Profit
- Detailed enough to drive improvement

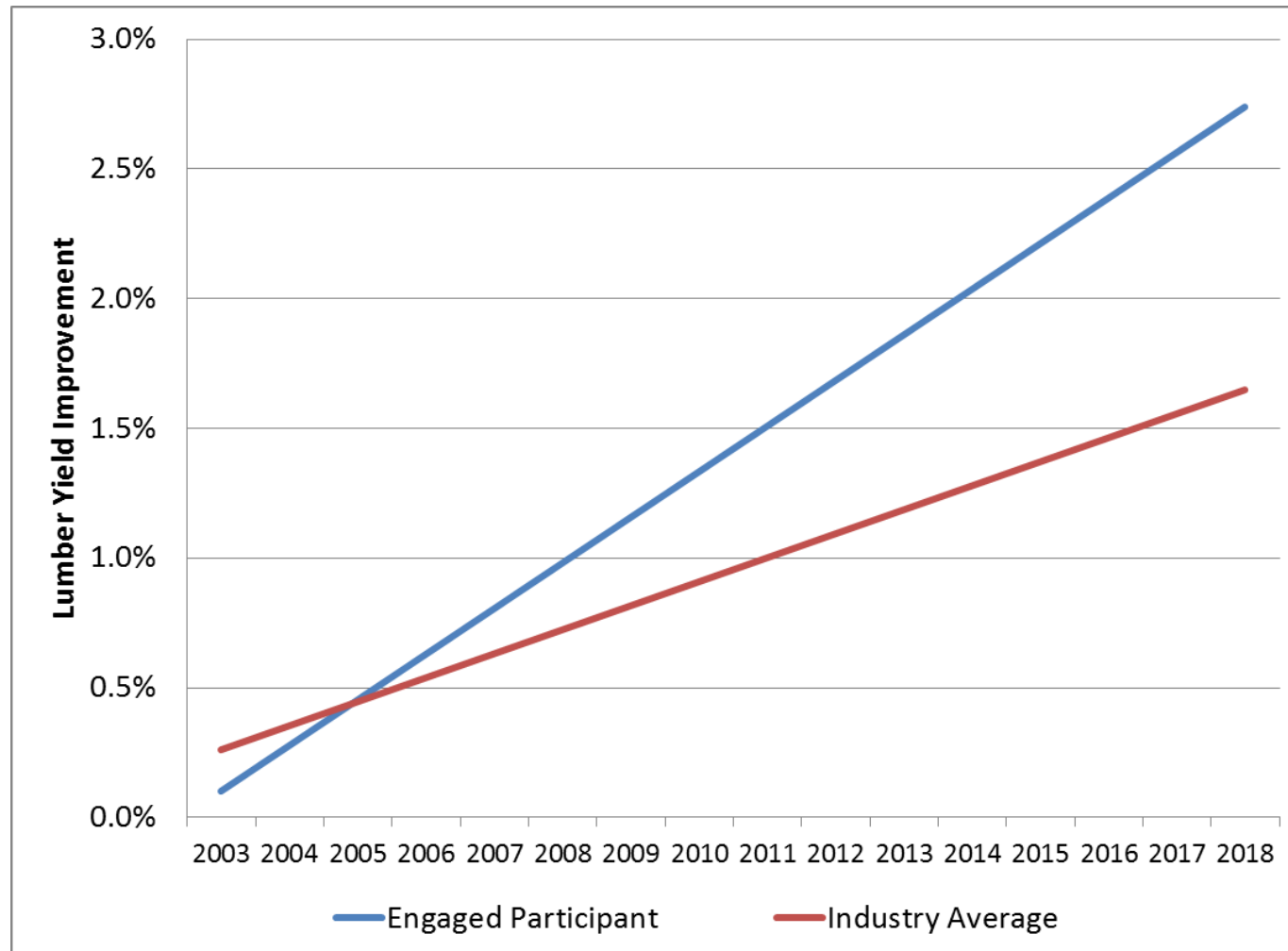
Taking Action Toward Improvement

- Identify and prioritize specific areas of opportunity
 - If costs - which department, which category?
 - If yield - where is opportunity? Target sizes? Optimization?
- What is required to improve?
 - Management/execution
 - Strategic direction
 - Capital investment
- Design and implement plan for improvement

Using Benchmarking to Drive Improvement – Annual Production



Using Benchmarking to Drive Improvement – Lumber Yield



Improved Lumber Selling Values

- Benchmarking participation identified lumber sales as an opportunity area.
- Management took action in several areas:
 - Changes to product mix
 - Improvements in lumber grade recovery
 - Installation of planer auto grading
 - Changes in sales management
- Company achieved top quartile sales performance as a result

Your Operation

- What is your competitive position?
- How will you respond to the changing competitive landscape?



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The Beck Group has partnered with Forest2Market to develop a new online platform for delivering our sawmill benchmarking data. Contact me for a demo of this powerful tool!