Prentiss & Carlise

LANDOWNER **update**

3rd Quarter 2021

Industry News

- ***Atlas Holdings has offered to buy Verso, but there are still a lot of questions. Here's what we know so far.***
  (July 14th)

  Atlas Holdings LLC, a Greenwich, Connecticut-based private equity firm, filed a proposal to purchase Verso Corp. for $20 per share in cash. Verso called the proposal unsolicited and said it is talking with its financial and legal advisors to carefully review the Atlas proposal to figure out what would be in the best interest of Verso and its stockholders. Verso halted production and laid off some 1,000 in July 2020.

  — *MSN*

- ***Pallet prices are still soaring as shortages hurt U.S. producers.***
  (July 15th)

  California farmers grappling with extreme drought, a labor crunch and logistical snafus can add another headache to the list: wooden pallets. The platforms used to move bulk produce through the food supply chain have more than doubled in price, shooting up to more than $15 apiece from less than $7 a year ago. Soaring lumber costs on top of surging e-commerce has turned the once-mundane shipping tool into a hot commodity. The spike is not only leading to hoarding, but also crime.

  — *Bloomberg*

Industry Overview

Forestland Operations

Rainy weather throughout most areas of the northeast led to somewhat unpredictable wood flow throughout the third quarter. Wet conditions can place stress on a supply chain that is already relatively fragile, and cause headaches for landowners, loggers, and mills alike. Landowners who took the time and expense building resilient road systems with thoughtful water management certainly reaped the benefit of their investment. The regional exception was in the far reaches of northern Maine, where the weather stayed relatively dry and harvest operations could continue with little interruption.

Fall colors of 2021 settle in along a forest road in the Northeast.

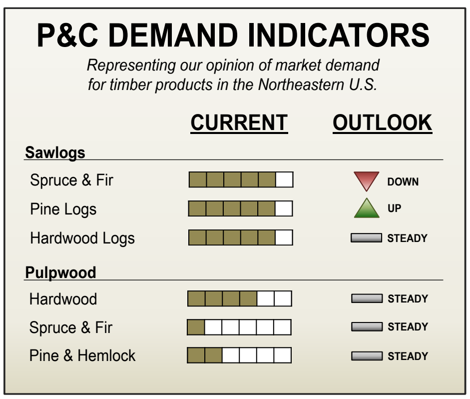
When the conditions are wet during the summer, the industry has two things going for it. First, the long warm days help evaporate excess water from the ground, and second, trees are in their peak growing period and pulling water up out of the soil. Now that fall is upon us, things start to go the other way. If the fall rains persist then we will find it difficult this year to keep deliveries consistent to fulfill mill demand.

Like almost every industry in the pandemic economy, workforce challenges remain in the forest products sector. Whether you are a producer of timber or a consumer of it, recruiting and retaining qualified candidates is a huge concern. In the last 6 months, we have seen it on both ends – we've seen loggers lose production due to turnover and the inability to find candidates to run equipment, and we've seen sawmills forced to take unplanned downtime for lack of workers. Being an employer in remote, rural regions can be a double-edged sword - the labor pool for employers tends to be smaller, but there are also limited options for workers seeking new opportunities. One area of labor draw that has recently seen success recruiting workers away is in the robust construction industry. We believe we have the team of contractors in place to achieve what we want for our forests, but the result has been rising wage costs for harvesting contractors, haulers, and mill workers. Demand for forest products has only increased during the pandemic, and the industry as a whole needs more workers in order to keep up.

As we prepare for winter forestry operations - our most productive season - our attention is drawn to the ever changing forest products markets which serve as an outlet for most of what we do.

Forest Products Markets

Overall, deliveries to our regional forest products markets this summer have been slightly off. The wet weather in the last half of the quarter slowed the pace of wood flow. As we move into the fall season and the associated rains, raw material inventories at our mills are not likely to increase much in the coming months.



This is tough news for timber consumers, who have been trying to keep up with healthy demand for forest products from their customers. As the economy bounced back from the pandemic, demand surged almost universally for nearly every product coming out of the forest. Building products – particularly lumber and structural panels – have led the charge. While the economic recovery is still considered tentative by many, this post-pandemic demand has been sustained for some time now.

Pulpwood Products

For the past several quarters, hardwood pulpwood demand has been steady and strong, with mills accepting unrestricted flow of hardwood to their facilities. Inventories are moderate given the season, despite the fact that there have been several outages (both planned and unplanned) at several of our regional pulp facilities. At this point, pulp mills appear to be running well and consuming steadily.

Demand for pulpwood at regional panel manufacturers has been very healthy thanks to the demand for building products. Notably, the LP mill in New Limerick Maine has been working on an expansion that will increase their wood consumption and help diversify their product offerings. This will provide landowners in the region with more options for selling their pulpwood.

Of course, wood fiber is not the only raw material consumed at these facilities. While the wood is sourced locally, many of the other manufacturing inputs such as chemicals are sourced globally. Wood consumption at at least one regional mill has been affected by the availability and supply chain difficulties of some of the chemicals they need for manufacturing. Considering the supply chain backlog that is widely reported in shipping and transportation, it won't be the last time regional pulp & paper production is disrupted due to global factors.

Recent expansions in softwood pulping capacity have increased regional consumption, however the opportunity for landowners is limited because of the availability of cheap, clean softwood chips from sawmills. Mills have been able to help out landowners by taking the small amount of softwood pulpwood that is produced on a job, but it's not their preferred source. A new pulp digester that will be coming online in Old Town Maine sometime in the 4th quarter is not likely to change this situation much, but it's good news that regional capacity is growing and manufacturers are investing in fiber production in the northeast.

Sawn Products

Softwood Sawstock

It's certainly been a roller coaster with spruce & fir dimension lumber. Anyone who follows the news (or is building an addition onto their house) has seen the wild price swings that have punctuated the headlines. After a meteoric rise in the first part of 2021, the

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- ***Maine delegation touts launch of logging industry relief program.***
  (July 20th)

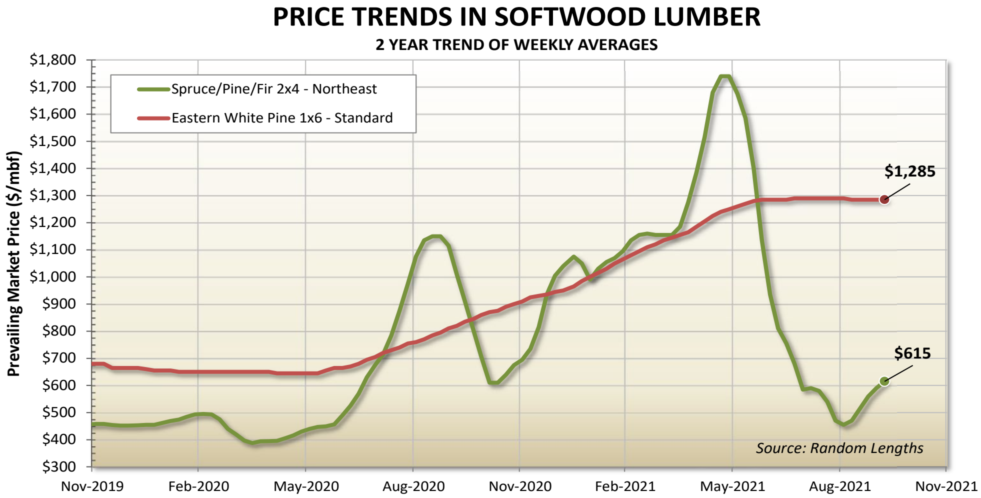
  All four of Maine's congressional delegates are touting a new, $200 million pandemic relief program for the U.S. logging industry that they helped get approved. The funding was provided through the Loggers Relief Act, which Sen. Susan Collins and Rep. Jared Golden co-authored, and Sen. Angus King and Rep. Chellie Pingree co-sponsored last year. Funding will be available starting Thursday to U.S. logging and log-hauling businesses that have been seriously impacted by the coronavirus pandemic.

  — Press Herald

- ***Study links active forest management to reduced tick populations.***
  (July 26th)

  Active management of forests, including timber harvesting to meet silvicultural objectives, can influence the transmission dynamics of tick-borne diseases such as Lyme, anaplasmosis and babesiosis, according to a new study by a team of University of Maine researchers. The researchers found that recently harvested forest plots hosted fewer small mammals and blacklegged tick nymphs, and reduced densities of adult blacklegged ticks as compared to the unmanaged control plots.

  — UMaine News



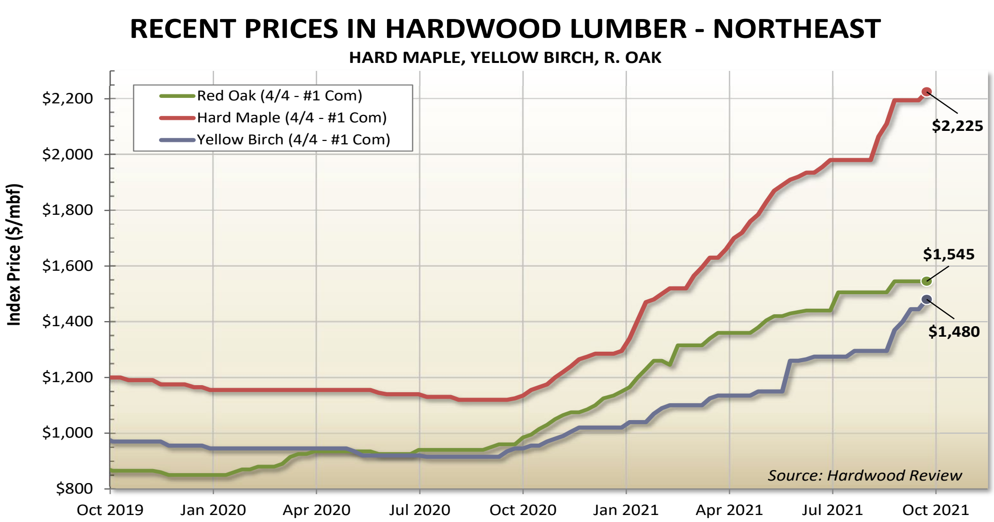
price plummeted just as quickly as builders scaled back plans and supply caught up with demand. During the last quarter there has been some subsequent, more muted recovery, like ripples in a pond. The price of a 2x4 is likely to stay volatile as things settle down from the shocks of COVID-19. Most of the sawmills that we speak with expect the price to settle above pre-pandemic levels once all is said and done.

Raw material inventories at our regional spruce & fir dimension sawmills are in good shape as harvesters have favored this product over others during a favorable pricing environment. Both production at sawmills and deliveries to them were robust and local demand hardly slackened during the lumber price crash. Spruce & fir log prices are down slightly, as to be expected, with the mills tightening the reins and everyone recognizing that the peak has come and gone. The next month will be a good indicator of how the winter log pricing will be – as the fall weather sets in and inventories draw down, mills are likely to get anxious about supply.

There has been about as much demand for pine logs as we have ever seen. Lumber prices have been on a consistent upward trend, and mills are anxious about taking advantage of a hungry market. Log inventories are lower than normal, and pine sawmills are concerned about getting enough logs to keep production up. Regional log prices are subsequently up as well, riding about 15-20% higher than pre-pandemic levels. We expect prices for both pine logs & pine lumber to turn around and abate slightly in the coming quarters - but because it is a much smaller market, we expect this slide to occur much more slowly than that of spruce & fir lumber.

Hardwood Logs

Lumber pricing on every major species & grade sold in the northeastern US has increased over the past three quarters.



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- ***U.S. scraps rule that allowed lower individual tariffs on Canadian lumber.***
  (August 19th)

  The U.S. Court of International Trade has eliminated a rule that allowed foreign companies such as Canadian lumber producers to have individual tariff rates lowered. The rule allowed foreign producers to quickly apply for lower countervailing duty rates if they weren't individually investigated by the U.S. Commerce Department in its original duty inquiry. The Aug. 18 CIT ruling reinstates higher duties for some Canadian lumber companies, although it will apply only prospectively.

  — Bloomberg News

- ***A Maine logging industry program focuses on growing the workforce.***
  (September 20th)

  The Mechanized Logging Operations Program was jointly developed by the Professional Logging Contractors of Maine and Northern Maine, Eastern Maine and Washington County community colleges.

  Besides learning about timber growth, tree species and markets, students are taught how to operate equipment so that they are career-ready upon graduation. Out of the recent 12-week hands on training program, nine graduates have committed to jobs and three are evaluating options.

  —Maine Biz

Pricing on hard maple and red oak - two species which dominate the northern forests - have nearly doubled from their pre-pandemic levels. Although there are signs of the increases tapering off, right now hardwood sawmills are doing whatever they can to acquire logs and get the material sawn quickly.

Summer months mark a period of intense inventory management both in the woods and at sawmills. Summer heat, humidity, and long exposure to sunlight can ruin log quality quickly, so there is a big push to keep logs from spoiling before being sawn. Sometimes, this means limiting the harvest of hardwood logs altogether, but most of the time it means just keeping things moving as quickly as possible. With these record prices, it's been important to everyone involved in the process to do what they can to keep the logs flowing.

Other hardwood species have seen similar price gains, and we expect prices to stay elevated for the coming quarter. Soft maple generally trends the same as hard maple, although at a lower value. A lot of that material winds up in industrial uses where spoilage matters less to the end consumer. One regional sawmill uses white birch for food & medical grade materials -- demand for those logs has been growing at a steady pace.

Biomass

A decade ago, this newsletter regularly included commentary on biomass - the harvest byproduct consisting of tree tops and limbs. This fuel - chipped in the woods and blown into closed compartment chip trailers - is used primarily for heat and energy production at pulp mills and in some cases, stand-alone electricity generators. Although it was rarely a significant contributor to landowner returns, biomass chipped in the woods was its own product with its own consumption patterns and market dynamics. However, as cheap domestic natural gas became widely available in the last decade, demand for biomass faded, to the point where landowners resigned themselves to leaving the product on the forest floor unsold.

These days natural gas prices have begun to rise up again, and that's got pulp mills once again thinking about the possible use of biomass at their facilities. We are all for making use of every part of the tree when possible, however our concern is that much of the logging infrastructure needed to support biomass production is no longer in place to permit the consistent supply that pulp mills will need to rely on biomass as a fuel source. Time will tell whether or not contractors will re-invest in the equipment necessary to produce it, but we're not holding our breath.

Summary

Demand for forest products in the northeast continues to be healthy and prices for almost every product is above pre-pandemic levels. The challenge will be keeping up with this demand -- workforce & supply chain concerns are abundant and will continue to affect costs and complexities for nearly all participants in the sector.

Benjamin D. Carlisle
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