

Review of North American Pellet Heating Markets

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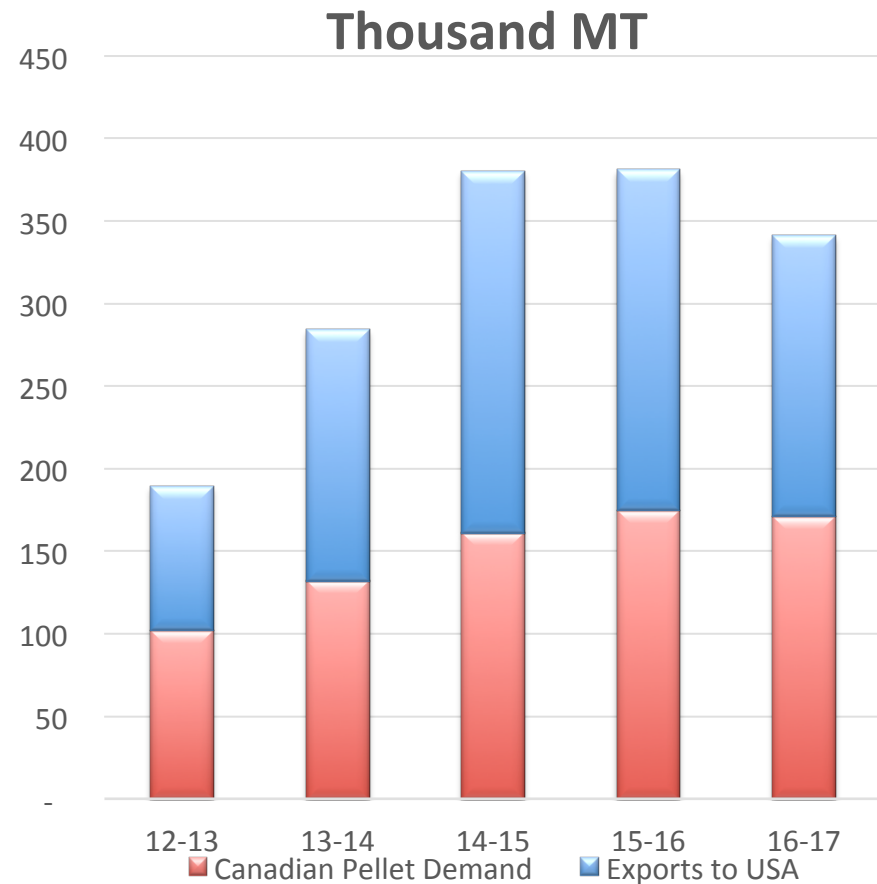
***Intelligent Analysis and Strategic Leadership for the
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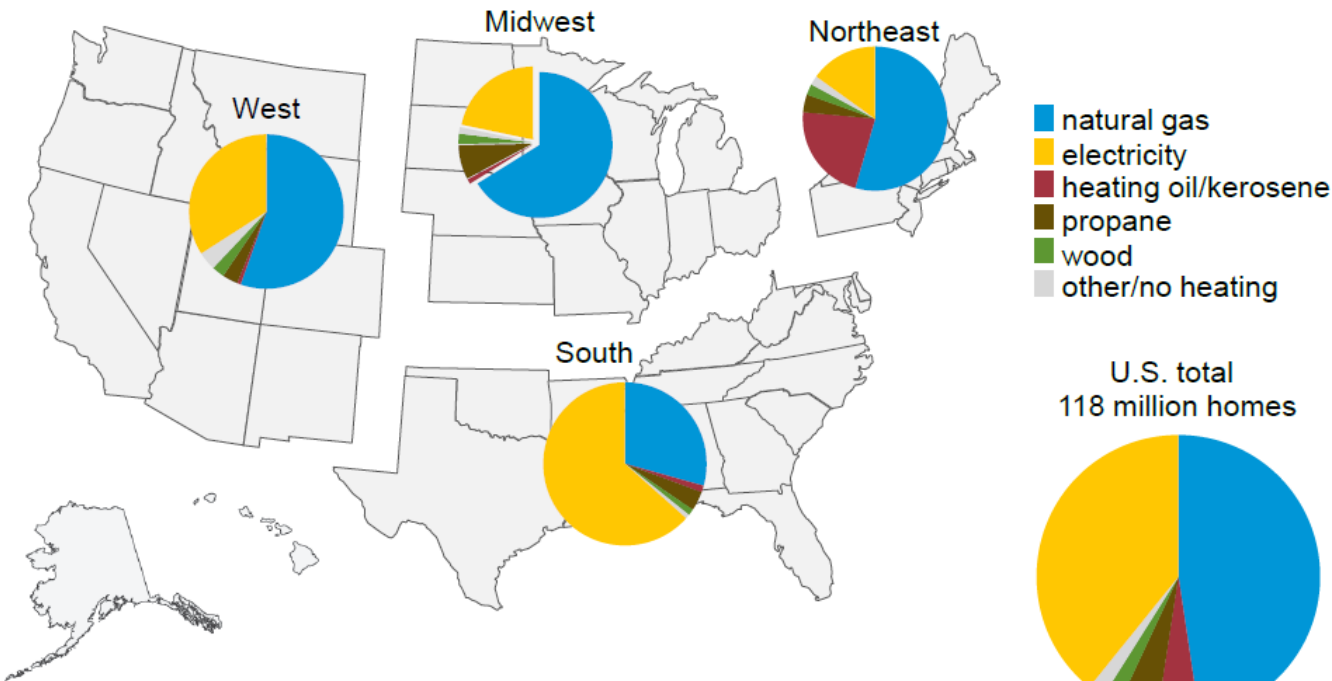
Canadian Pellet Industry Exposure to North American Heating Markets

- Last year, both markets were ~170k mt
- Canadian demand remains fairly steady despite poor market conditions
- US exports down 22% from highs in 2014 (219,000 mt)

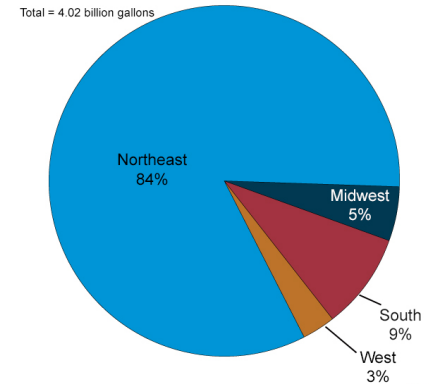


Why is so much of the US wood pellet market concentrated in the Northeast?

Share of homes by primary space-heating fuel and Census Region



Sales of residential heating oil by Census region, 2015



Source: U.S. Energy Information Administration, *Fuel Oil and Kerosene Sales 2015, Adjusted Sales of Distillate Fuel Oil by End Use, December 2016*

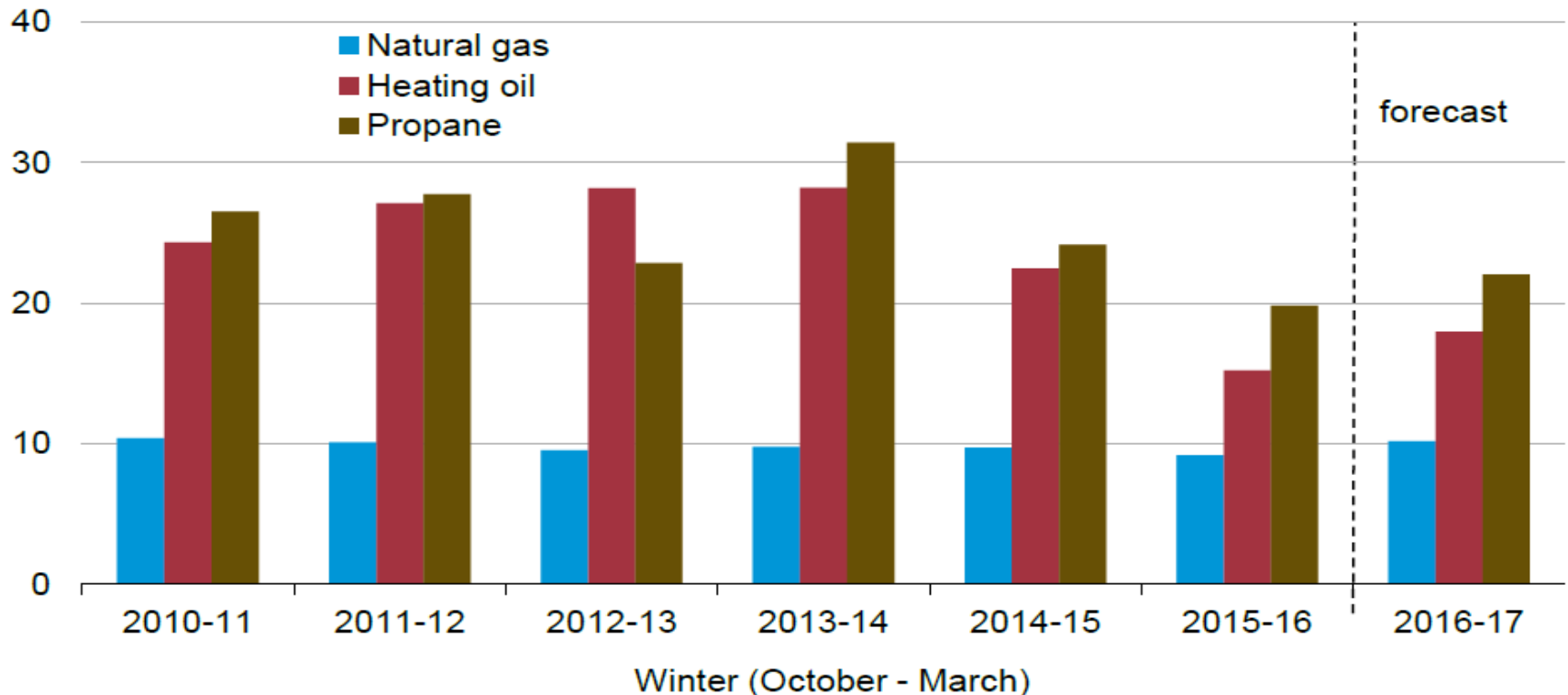
84% of heating oil sales in the US are in the Northeast

Oil + Propane are the primary targets for pellets

Source: U.S. Energy Information Administration based on 2015 American Community Survey

Low oil prices? The pellet industry has a natural gas problem...

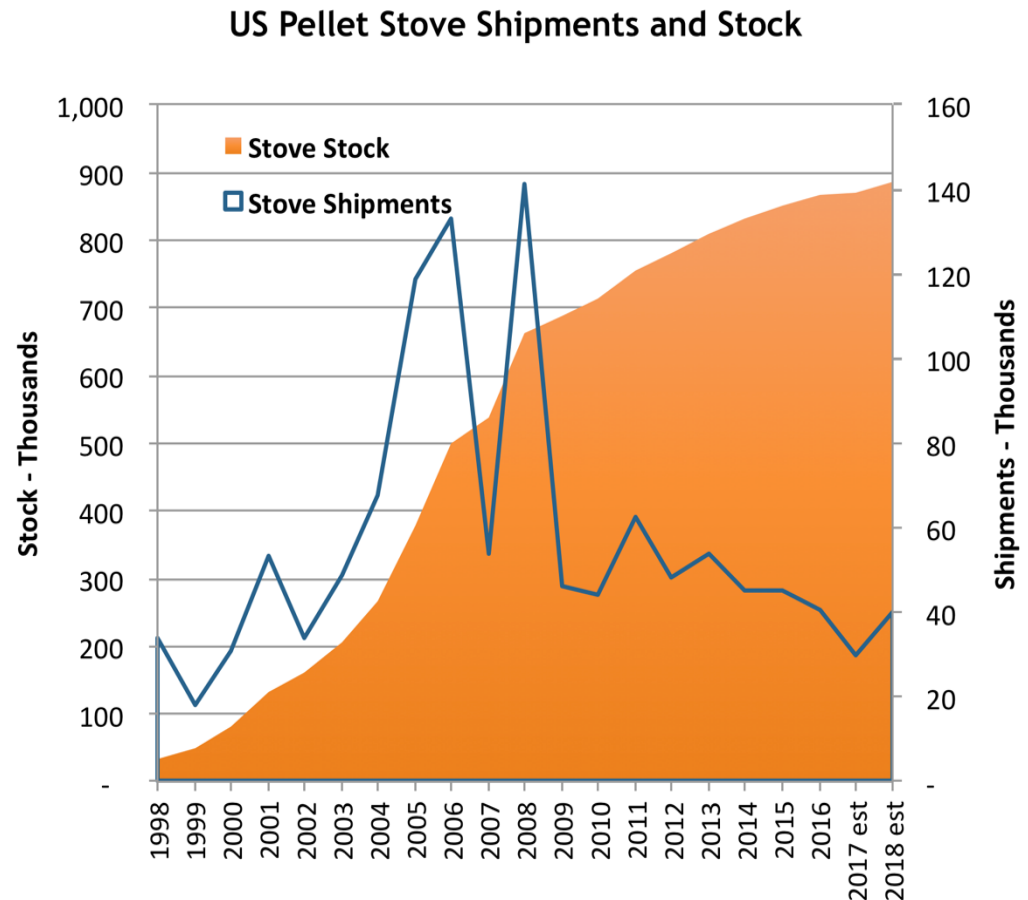
U.S. average residential winter heating fuel prices
dollars per million Btu



Historically low heating oil prices are still significantly higher than natural gas prices

US Pellet Stove Sales

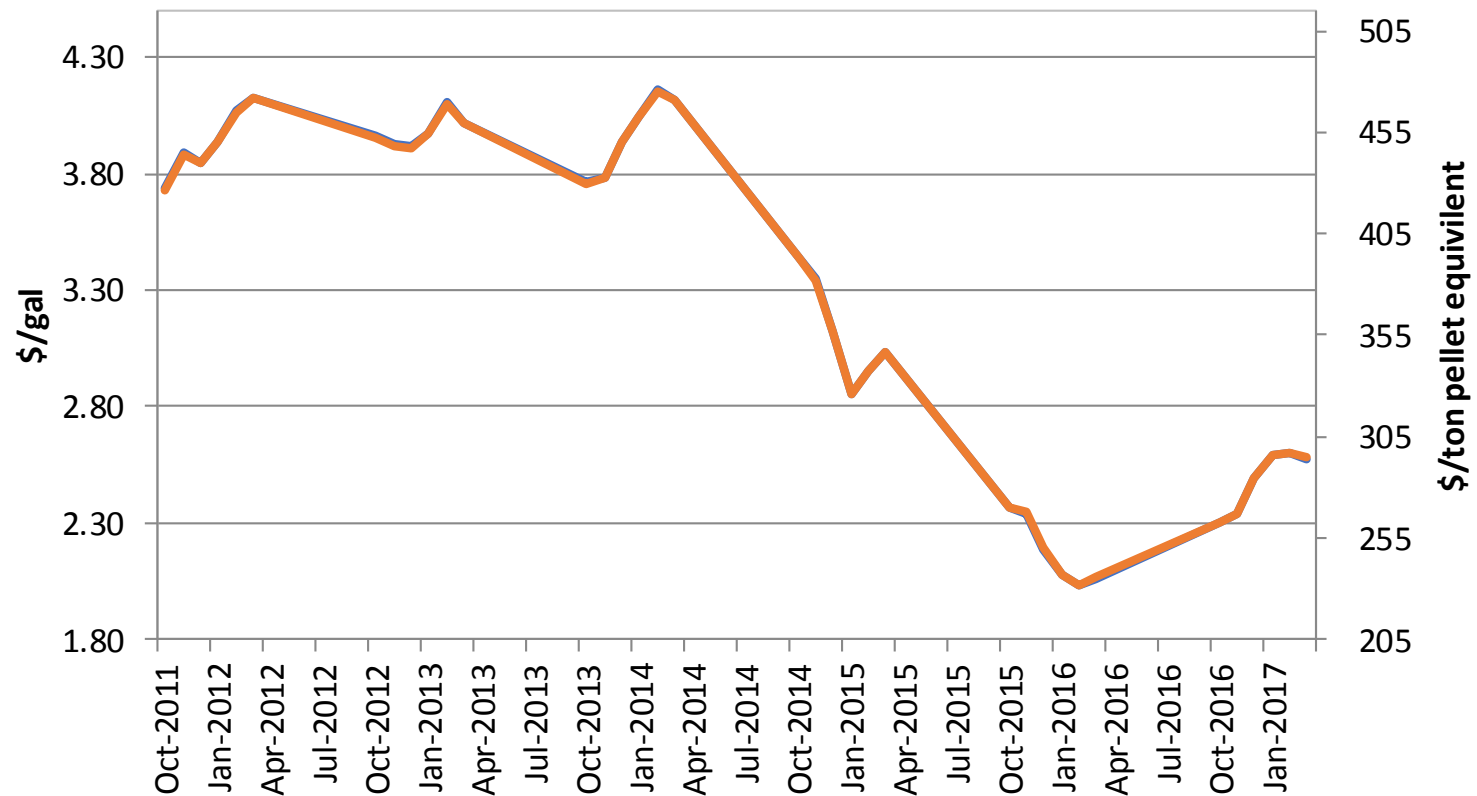
- Boom years for pellet stove shipments correlate strongly to when natural gas prices were historically high
- FutureMetrics estimates ~900k stoves in circulation in the US



Source: HPBA, FutureMetrics

Heating Market Drivers: Oil Prices

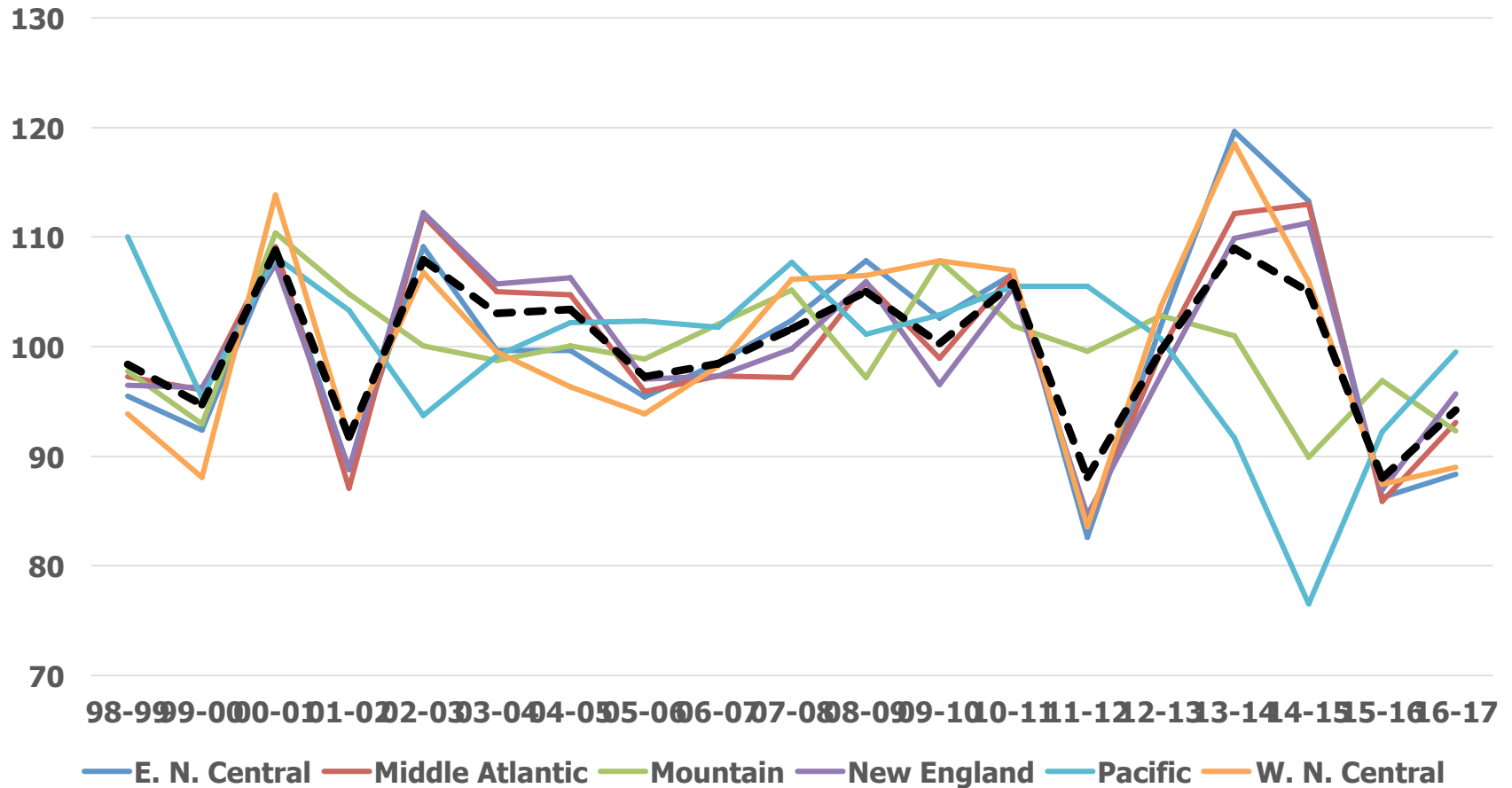
**New England Heating Oil Prices
\$/gallon and pellet equivalent**



Source: EIA, FutureMetrics

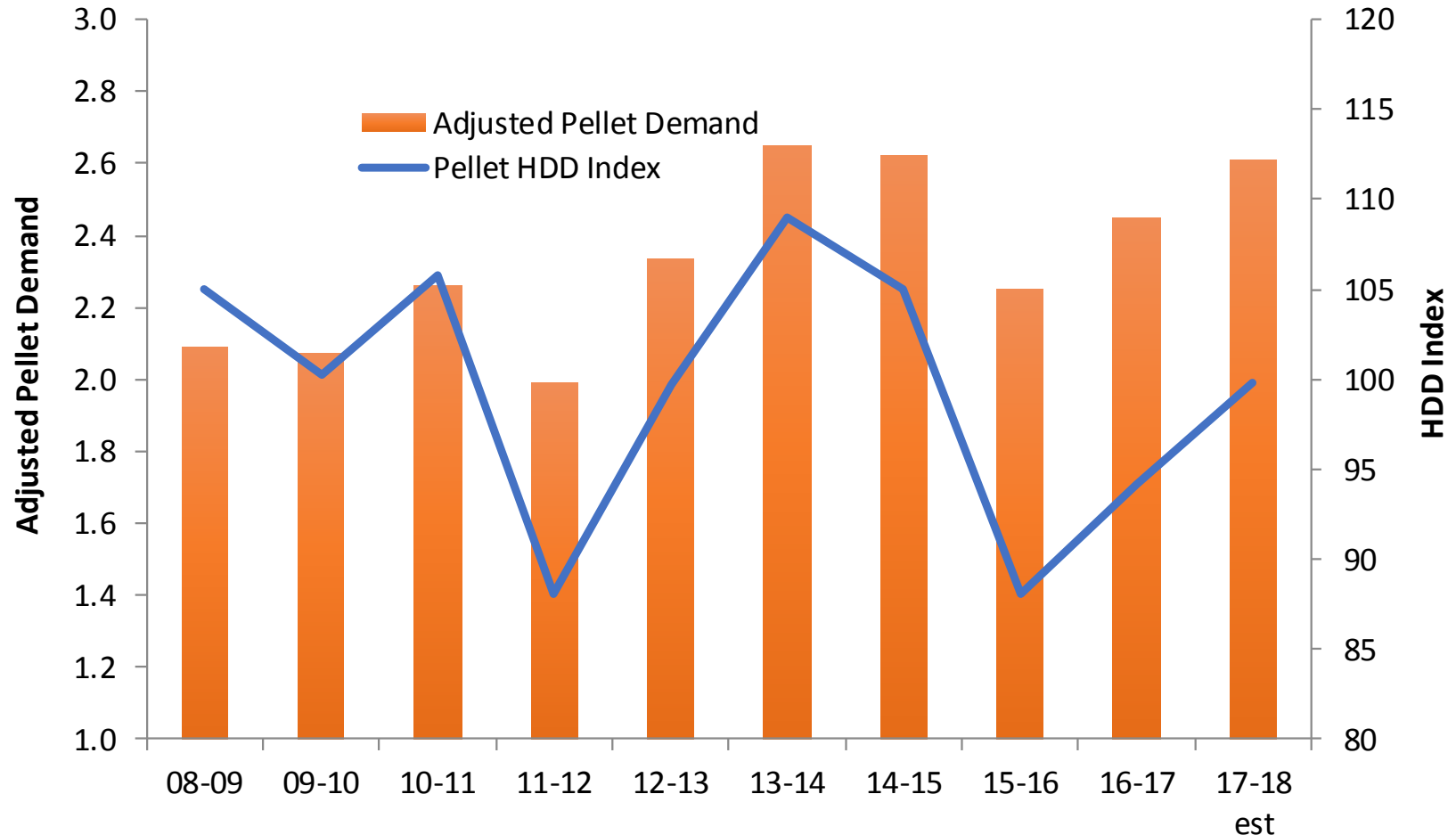
Heating Market Drivers: Weather

US Pellet HDD Index
Long term average = 100



Estimating US Pellet Demand

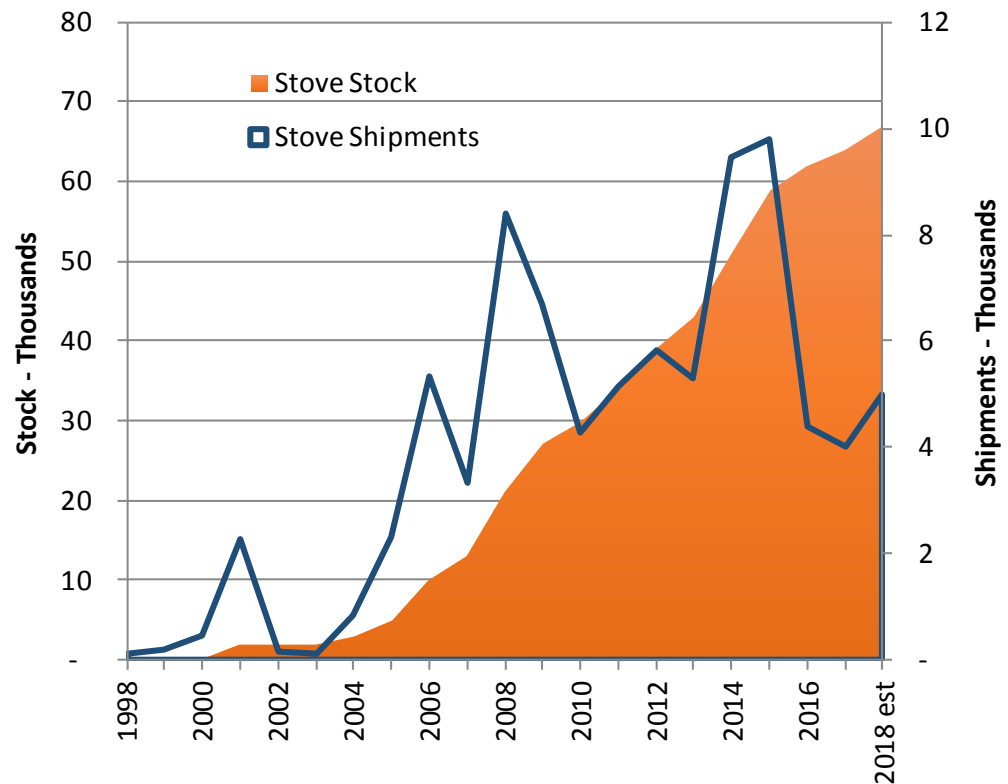
US Residential Pellet Demand Forecast
Million MT



Canadian Residential Pellet Market Growth

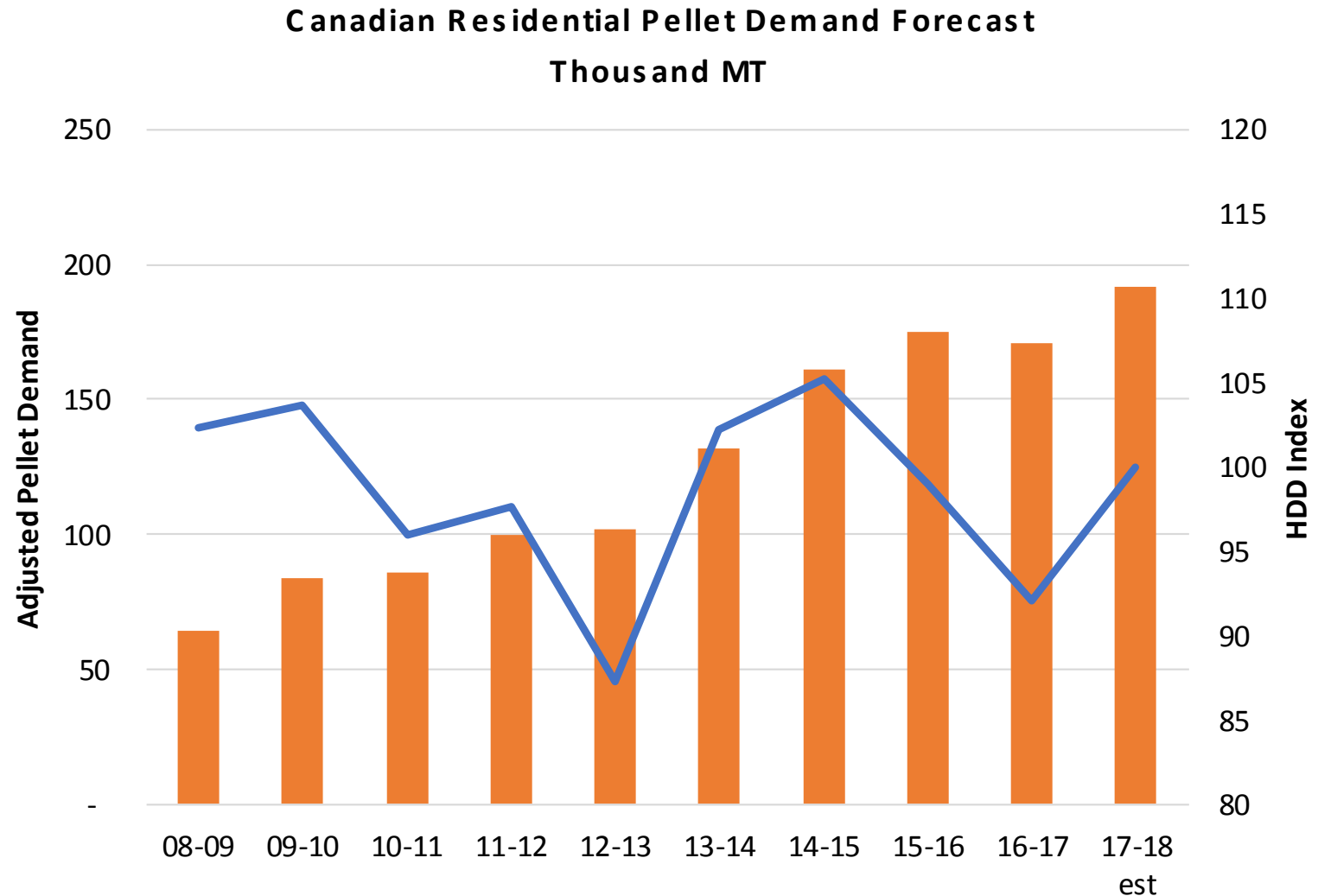
- Still an emerging market
- General upward trend despite difficult market conditions
- According to HPBA 2015 was the highest year for Canadian stove sales
- US hasn't come close to highs reached in the middle of the last decade

Canadian Pellet Stove Stock and Shipments



Source: HPBA, FutureMetrics

Canadian Residential Pellet Demand



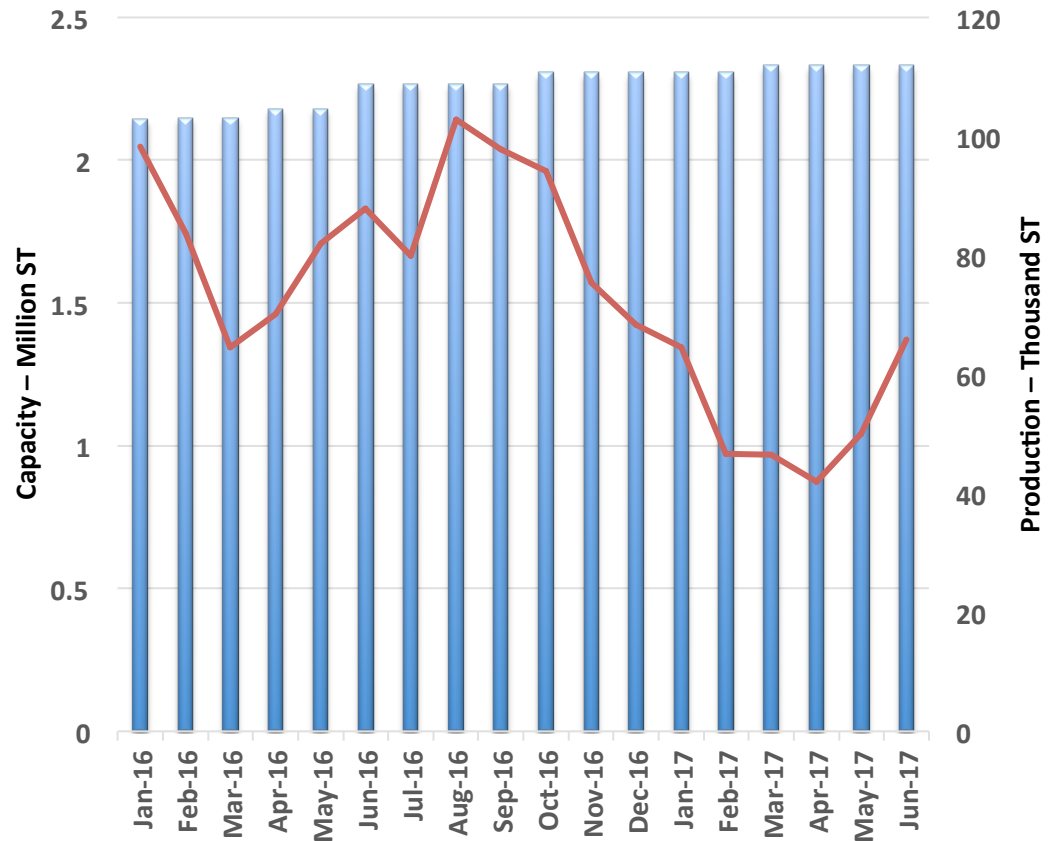
Source: FutureMetrics

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Current Market Conditions: Production

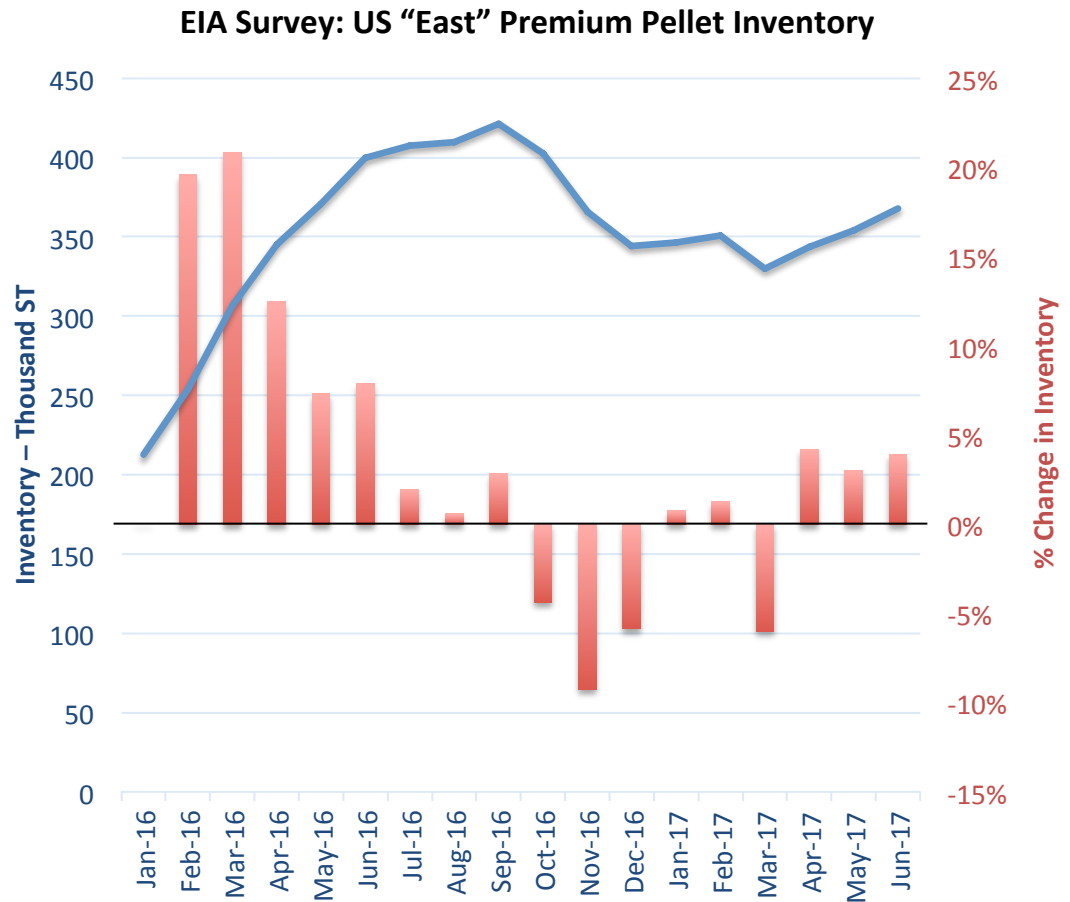
- 2.3 million st of installed capacity in US Northeast and North Central
- Capacity Utilization “recovered” to 34% in June
- Up from 22% in April
- Healthy levels >70% for this industry

EIA Survey: “US East” Pellet Capacity and Production



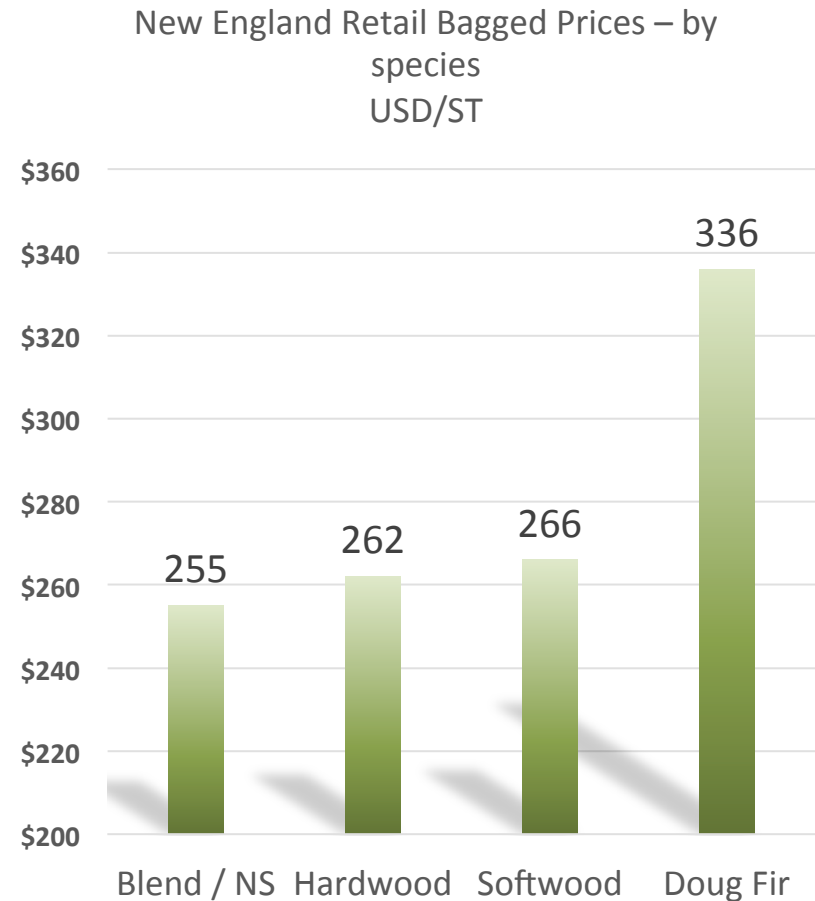
Current Market Conditions: Inventory

- Inventory growth has picked up marginally over the last few months
- Overall producers have done a much better job controlling inventory build after the second mild winter in a row
- Inventory levels 8% less in June '17 than they were in June '16



FutureMetrics New England Pellet Price Survey

- FutureMetrics is now collecting detailed retail pricing data on a monthly basis in New England, including:
 - Retailer
 - Brand
 - State
- Insights like:
 - Doug fir pellets carry an \$81 premium over blended or species not specified pellets



Short Term Outlook for North American Pellet Heating Markets

Challenges Remain

- Low oil prices
- Coming off 2 warm winters

On the Bright Side

- Producers have been more cautious this year
- Capacity expansion has been virtually non-existent

Outlook

- A return to a “normal” winter means ~200,000 tons of additional demand
- Short term outlook for oil doesn’t offer much help

Thank You!

New
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