

# 2019

PRESIDENT'S REPORT



# MERCER 2019

## DEAR FELLOW SHAREHOLDERS:

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Overall, 2019 was a challenging year. While we achieved solid operational performance in the year and advanced several important strategic initiatives, the global pulp and lumber markets fell off sharply. Our product markets remain weak going into 2020, but we believe that our efficiencies and portfolio of well-maintained assets will place us in a strong position once market balance returns.

In conjunction with our strategy to operate modern assets, our focus on operational excellence highlights our belief in the importance of renewable wood based products and biomaterials, produced sustainably through the full utilization of our fiber resources.

As I reflect on 2019, I believe we made good progress advancing the four pillars of our strategy in the year.



## THE FOUR PILLARS OF OUR STRATEGY ARE:

- 1 Operate world-class assets
- 2 Growth and diversification where we have core competencies
- 3 Managing the integrity of our balance sheet and liquidity
- 4 Sustainable operations







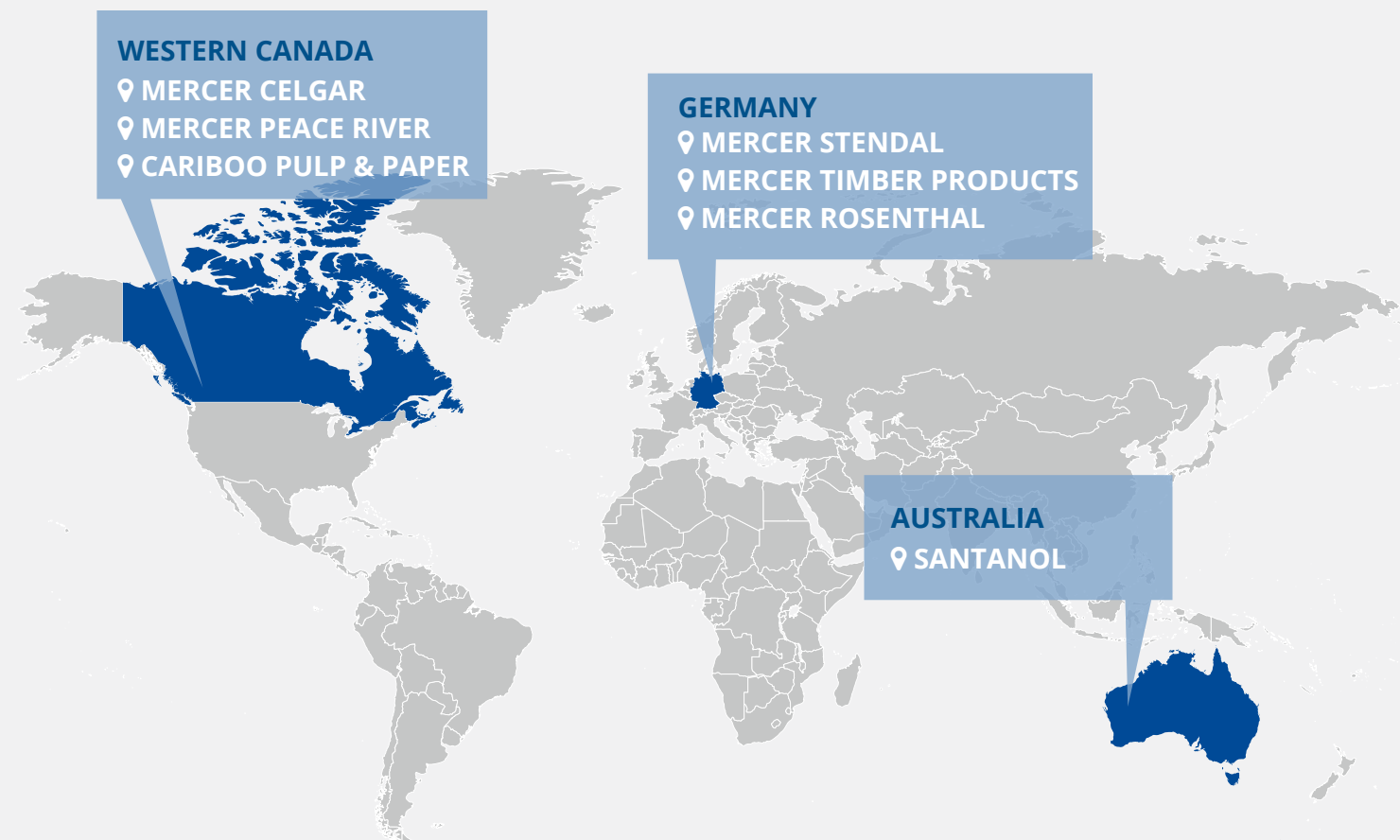
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## OPERATE WORLD-CLASS ASSETS

In 2019 we invested over \$132 million in our operations; the majority of which was directed to high-return capital projects.

At our Stendal and Rosenthal mills, we invested in nitrogen and phosphorous-reducing equipment and systems, respectively, that have further reduced our environmental footprint. Through these investments, we were also able to take advantage of the German government's wastewater fee reduction incentive: a program that provides wastewater fee waivers for companies that continue to advance their environmental performance through capital expenditures.

We also completed a large portion of the second phase of our Friesau sawmill expansion. We are now in the process of commissioning a new high-speed planer mill and new state-of-the-art and highly energy efficient continuous kilns. The final element of this phase will be the construction of new lumber sorting equipment, allowing us to improve grade mix and increase production. Ultimately, when this project is finalized in early 2021, Friesau's capacity will make it one of the largest, most modern and efficient sawmills in the world.





# 2

## GROWTH AND DIVERSIFICATION WHERE WE HAVE CORE COMPETENCIES

Much of 2019 was focused on the integration of our Peace River mill where we were successful in achieving over \$19 million of annual synergies. We expect to add to that in 2020 as sales and logistics contracts expire, allowing our pulp sales organization to apply Mercer strategies and expertise. In addition to collective actions at the Peace River mill, we remain focused on optimizing our Friesau mill combined value and performance, which currently total almost \$15 million annually.

Even after our recent acquisitions of Mercer Peace River and Santanol in late 2018, we remain focused on growth where we have a clear leadership and high degree of competency. Our growth efforts will focus on:

Pulp  
Wood Products  
Wood Extractives  
Green Energy



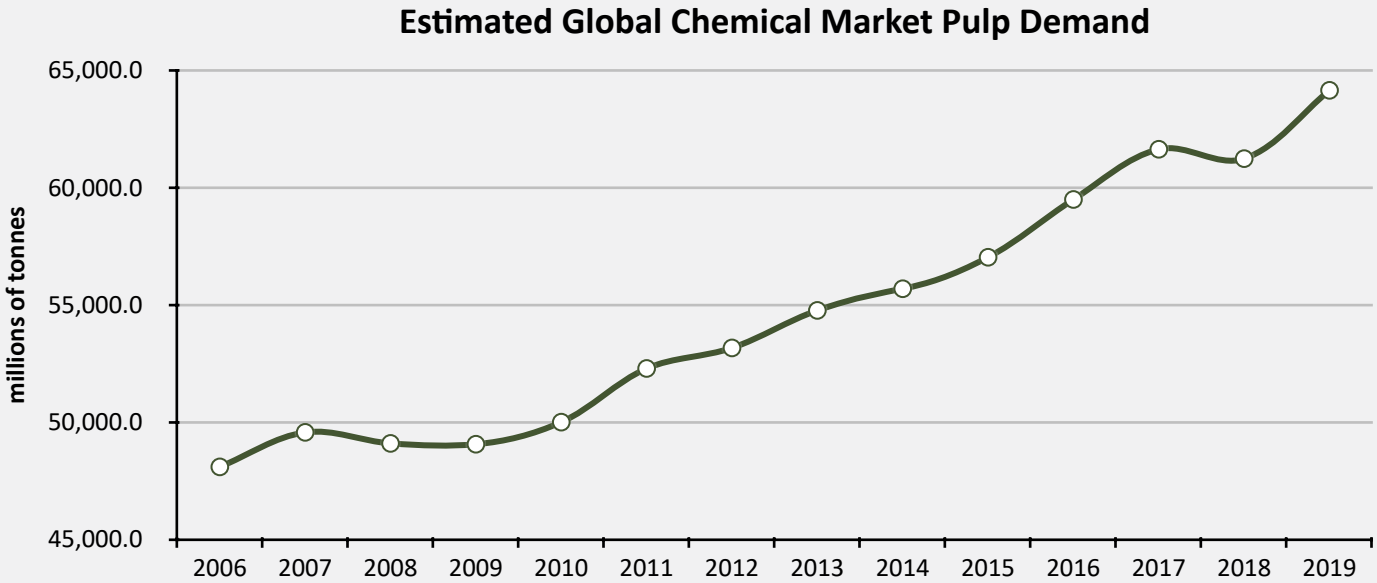


The development of our sandalwood business in Australia is also progressing as planned. We are making advancements in our plantation and silviculture operations, strengthening existing customer relationships and developing channels with new customers, who are creating luxury products and are attracted to us for our sustainable and high-quality products. We are excited to grow this business as our plantations begin to reach their optimal harvest age within the next few years.

In 2020, we plan to increase investments to further digitize our operations. We will make additional investments in automated process monitoring systems and a pulp supply chain automation system in Germany that will use RFID technology. Internally, this will reduce forklift movements, leading to reduced emissions and improved safety, along with reduced truck and rail loading times.

As we move forward, we will continue to focus on opportunities that accelerate our growth on an organic basis. From small projects that increase efficiency of our production equipment and supply chain, to investments in our people, safety, and lower emissions, we are well-positioned to take advantage of these opportunities.

We also intend to take a principled and disciplined approach in seeking to identify potential acquisitions that would align strongly with our existing assets, as well as other businesses that would create additional value for stakeholders.





## MANAGING THE INTEGRITY OF OUR BALANCE SHEET AND LIQUIDITY

We believe our balance sheet and liquidity at the end of 2019 provide us a solid footing to move through market uncertainty.

We believe that we are well positioned to address downside risk, while also ready to take advantage of opportunities afforded by future global economic expansion.

2020 is starting with weak pulp prices, so we will be operating by doing everything we can to optimize our fiber handling and logistics as well as control and reduce costs. Our balance sheet is in good shape with ample liquidity, but discipline at this stage in the cycle will contribute to shareholder value over the long term.

In late 2019, we opportunistically refinanced \$100 million of our 7.75% 2022 Senior Notes with a tack-on to our existing 2025 Senior Notes at an effective yield to worst of approximately 6.4%. Through this transaction, we issued \$200 million of notes using half of the proceeds to repay the 7.75% 2022 Senior Notes and half for general corporate purposes, including discretionary capital projects. Our earliest Senior Notes do not mature until 2024.





In 2019, our total revenues were over \$1.6 billion, up almost \$0.2 billion from 2018. The increase reflects the acquisition of our Peace River mill for a full year, which was partially offset by lower pulp pricing in the second half of the year.

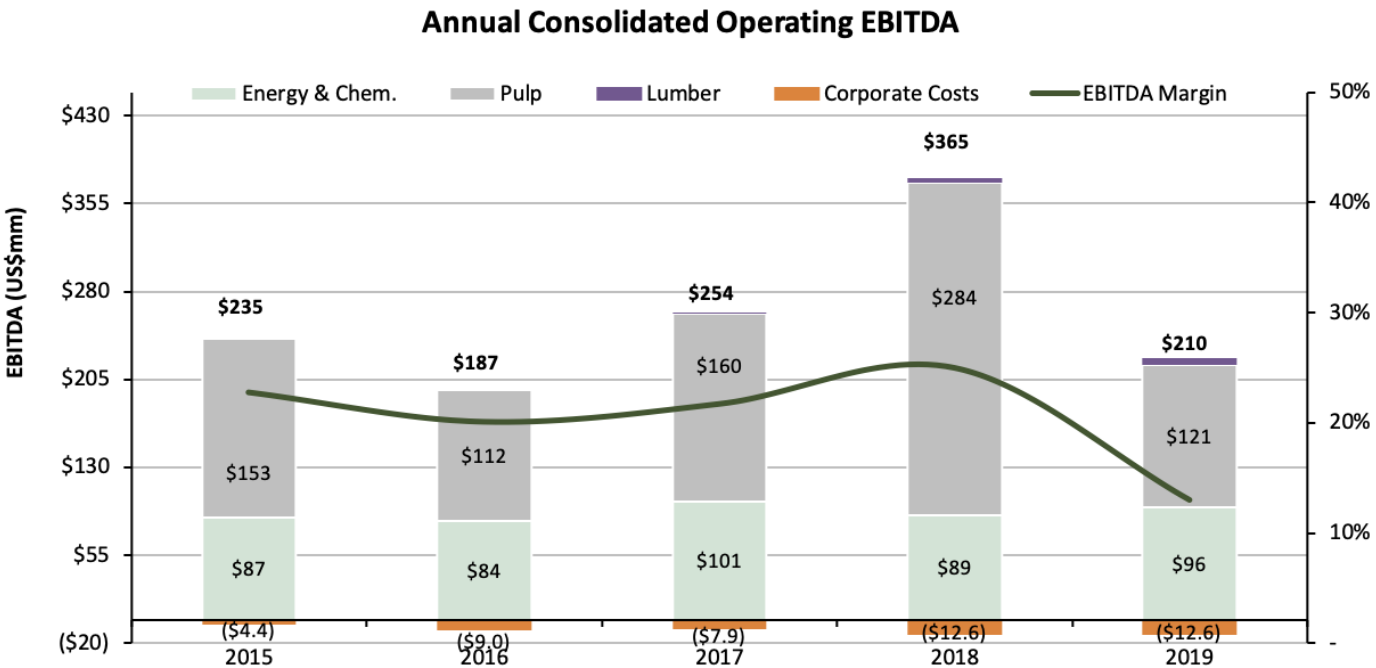
Operating EBITDA<sup>1</sup> totaled approximately \$210 million, down \$154 million from last year, reflecting materially lower pulp prices in the latter half of 2019. The following table provides a reconciliation of net loss to operating income and operating EBITDA for the year indicated:

	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
	(in thousands)		
Net Income (loss) .....	(\$9,639)	\$128,589	\$70,483
Provision for income taxes .....	19,226	48,681	33,452
Interest Expense .....	75,750	51,464	54,796
Loss on settlement of debt.....	4,750	21,515	10,696
Legal cost award .....	-	6,951	-
Acquisition commitment fee .....	-	5,250	-
Other expenses (income) .....	(6,084)	5,417	(873)
Operating income .....	84,003	267,867	168,554
Add: Depreciation and amortization .....	126,394	96,729	85,294
Operating EBITDA .....	\$210,397	\$364,596	\$253,848

Our net loss in 2019 was approximately \$10 million, or \$[0.15] per basic share, compared to net income of \$129 million, or \$1.97 per basic share in 2018.

In 2019 we increased our quarterly dividend in 2019 to \$0.1375 per share.

<sup>1</sup> Operating EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States ("GAAP") and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.





## SUSTAINABLE OPERATIONS

Sustainability is a core value of our company and we have recognized the importance of operating as a sustainable enterprise for many years. Whether it be lower emissions, safety, stakeholder and community engagement, or governance practices, we strive for continuous improvement in these areas and have invested accordingly. We are proud to produce natural, renewable, and sustainable products.

One of the ways we think about sustainability is that our ability to operate and grow in the future requires us to respect all of our stakeholders. Our employees, local and indigenous communities, suppliers, and our shareholders all depend on our ability to operate sustainably. This is not always an easy course to navigate due to the instances when there are competing priorities. However, our corporate values inspire us to walk this path with transparency at the forefront.

On the environmental front, we are focused on ways to reduce our water usage. Today, we have excellent water quality performance, and generally, the water we return to the rivers is cleaner than when we started with it; however, we are working to use less of it. We already have some of the most modern mills in the world with a water usage lower relative to our peers, but this is an area where we believe we can further optimize our usage.



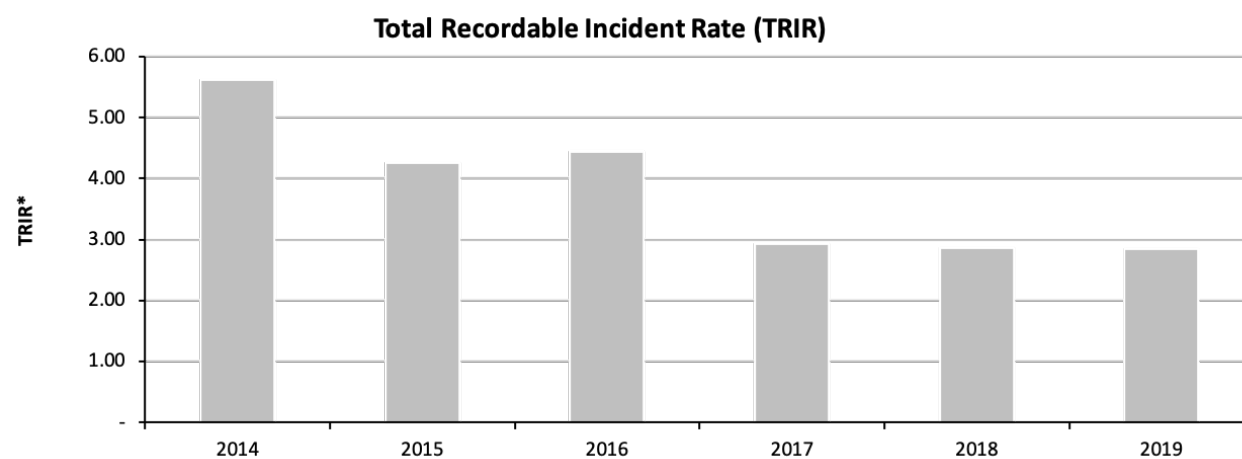


## DEVELOPMENT OF HUMAN CAPITAL

One of our core focuses over the last few years is the health and safety of our team members. Our stated goal is zero injuries, which inspired the name of our safety initiative: Road to Zero. I am pleased with the advances we made in our safety culture in 2019 and the record level of safety performance, but there is more work to be done.

In 2020, we will be continuing to invest in our people via additional leadership training as we develop our future leaders. We will also be focusing on diversity and inclusion, including strategies to improve our recruiting process and remove any barriers that may exist to developing a workforce that is fully reflective of the communities where we operate.

Our industry is facing a demographic challenge as baby boomers retire, so we want to ensure we are the employer of choice for everyone.



\*Incidents per 200,000 working hours



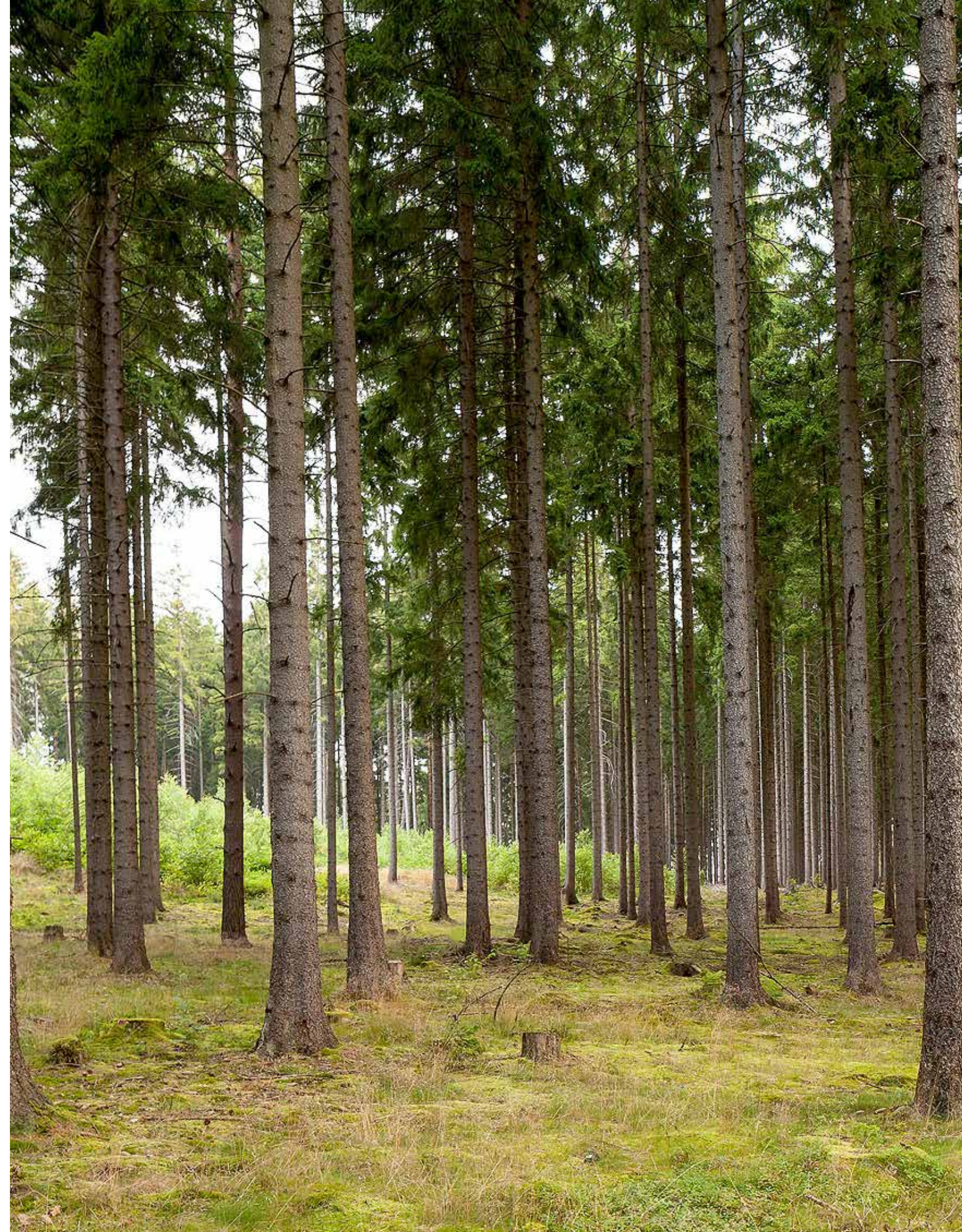
## VARIABLE MARKET CONDITIONS

Pulp markets in the latter half of 2019 were challenging. Record high levels of hardwood inventories created significant downward pricing pressure through the second half of the year that resulted in low prices for all pulp grades. However, on a positive note, pulp demand has remained steady, with China's imports at record levels as paper producers restock. We believe softwood and hardwood prices have hit their floor and will be improving through 2020.

Lumber prices, on the other hand, have been slowly improving through the second half of 2019, primarily on positive signs from the U.S. housing market. Pricing in the European lumber market did not follow the same pattern as the U.S., but demand was relatively steady for most of the year. We experienced some price reductions in this market in 2019, primarily due to the increased availability of low cost, storm and beetle-damaged wood in the market. In general, the lower grade logs that are currently plentiful in Germany push lumber pricing down. However, we have maintained and even improved our margins in some markets due to the lower log costs.

So far in 2020 we believe the pulp markets will continue to improve, albeit slowly, and we are hopeful that the U.S. housing market and by extension lumber demand will remain strong. We also expect European lumber demand to remain steady; however, the recent outbreak of the Coronavirus has created some uncertainty in terms of global economic activity that could negatively affect demand for our products.

As I have mentioned in the past, our disciplined growth strategy recognizes the benefits of EBITDA diversification, hence our recent investments in both lumber and bio-extractives. Today, we are actively pursuing future growth in both areas. Our first sawmill investment has been a success and we will continue to look for additional opportunities to grow our exposure to the synergies that exist between sawmills and pulp mills. Similarly, bioextractives have the potential for synergies with our pulp operations, and we believe that we have the expertise to realize them.







## 2020 — BUILDING ON SUCCESS

As we navigate through 2020, your management team will continue to advance our value-creation strategy, while maintaining a sharp focus on efficiently managing our balance sheet. As always, we will continue to improve the sustainability of our business while staying true to our core competencies and our continuous improvement culture. We look forward to reporting our progress against our strategy and goals in the year ahead, and to actively dialogue with investors, analysts, and other Mercer stakeholders.

I would like to thank our Board of Directors for their guidance and support, and most importantly I thank our dedicated team members for the spirit and professionalism they bring to our operations.

Mercer International Inc.

David M. Gandossi, FCPA, FCA  
Chief Executive Officer and President





# SHAREHOLDER INFORMATION

## MARKET INFORMATION

Our shares are listed and quoted for trading on the NASDAQ Global Market under the symbol “MERC”. The following table sets forth the high and low sale prices of our shares on the NASDAQ Global Market for each quarter in the two-year period ended December 31, 2019, and for the period ended March 31, 2020.

FISCAL QUARTER ENDED		
2018		
	High	Low
March 31 .....	\$14.90.....	\$12.05
June 30.....	\$17.75.....	\$12.20
September 30.....	\$18.75.....	\$15.45
December 31 .....	\$19.14.....	\$9.36
2019		
	High	Low
March 31 .....	\$15.78.....	\$10.12
June 30.....	\$17.74.....	\$13.58
September 30.....	\$15.84.....	\$10.58
December 31 .....	\$13.21.....	\$10.57
2020		
	High	Low
March 31 .....	\$13.44.....	\$6.42

## ANNUAL MEETING

The Annual Shareholders’ Meeting will be held on May 29, 2020.

## FORM 10-K

Our Annual Report on Form 10-K for the year ended December 31, 2019 was filed with the Securities and Exchange Commission and is posted in the “Investors” section on the Company’s web site (<https://mercerint.com/investors/reports-filings/>). The Form 10-K provides important information about the Company, including business, financial and other information and should be read in conjunction with this report.

## SHAREHOLDER INFORMATION

As at March 31, 2020, there were a total of 65,799,946 shares outstanding.

## FORWARD-LOOKING STATEMENTS

The preceding includes forward-looking statements which involve known and unknown risks and uncertainties which may cause the Company’s actual results in future periods to differ materially from forecasted results. Among those factors which could cause actual results to differ materially are the following: market conditions, competition and other risk factors listed from time to time in the Company’s SEC reports.



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

<b>Jimmy S.H. Lee****</b> Executive Chairman of the Board	<b>James Shepherd****</b> Director, Buckman Laboratories International Inc.	<b>Linda J. Welty** ****</b> Director, Huber Engineered Materials; President and CEO of Welty Strategic Consulting, LLC
<b>David M. Gandossi ****</b> President and CEO	<b>Martha A.M. Morfitt***</b> President and CEO, River Rock Partners	<b>Rainer Rettig</b> Head of Circular Economy Program of Covestro AG
<b>R. Keith Purchase** ****</b> Retired Businessman	<b>Alan C. Wallace***</b> CEO of Peloton Advisors Inc.	
<b>William D. McCartney ***</b> Pemcorp Management Corp.		

\* Member of Audit Committee

\*\* Member of Governance and Nominating Committee

\*\*\* Member of Compensation Committee

\*\*\*\* Member of Environmental, Health and Safety Committee

## EXECUTIVE OFFICERS, SENIOR MANAGEMENT

<b>David M. Gandossi</b> President, CEO and Director	<b>Leonhard Nossol</b> Controller, European Operations and Managing Director, Rosenthal	<b>Richard Short</b> VP Controller
<b>David K. Ure</b> Senior Vice President, Finance, CFO and Secretary	<b>André Listemann</b> Managing Director, Stendal	<b>Genevieve Stannus</b> Treasurer
<b>Adolf Koppensteiner</b> COO	<b>Kenneth William MacPherson</b> Managing Director, Celgar	<b>Bill Adams</b> Vice President, Sustainability & Innovation
<b>Wolfram Ridder</b> VP Business Development	<b>Shawn Elliott</b> Mill Manager, Peace River	<b>Christoph Grewe-Franze</b> Chief Information Officer
<b>Brian Merwin</b> VP Corporate Development	<b>Carsten Merforth</b> Managing Director, Friesau	<b>Wolfgang Beck</b> Managing Director, Mercer Holz

## SALES AND MARKETING LEADERSHIP

<b>Pulp</b>	<b>Wood Products</b>
<b>Eric Heine</b> VP Sales, Marketing and Logistics, North America & Asia	<b>Frank Turnbull</b> Director of U.S. Sales
<b>Uwe Bentlage</b> Managing Director Mercer Pulp Sales and VP Sales and Marketing, Europe	<b>Johannes Mörth</b> Sales Director, Europe
<b>Nils Hegerding</b> VP Sales and Marketing, Europe	<b>Bob Iwami</b> Director of Asia Sales

## OFFICES

<b>Corporate Office</b> 1120 - 700 West Pender Street Vancouver, BC Canada V6C 1G8 Telephone: (1) 604 684 1099 Facsimile: (1) 604 684 1094 e-mail: info@mercerint.com	<b>Registered Office</b> 14900 Interurban Avenue South Suite 282 Seattle, Washington USA 98168 Telephone: (1) 206 674 4639	<b>German Office</b> c/o Stendal Pulp Holdings Charlottenstraße 59 10117 Berlin Germany Telephone: (49) 30 30 64 710 Facsimile: (49) 30 30 64 7199
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## OPERATIONS

<b>Zellstoff-und Papierfabrik Rosenthal GmbH</b> Hauptstraße 16 D 07366 Blankenstein (Saale) Germany T: (49) 36642 82166 F: (49) 36642 82000 info@zpr.de	<b>Zellstoff Stendal GmbH</b> Goldbecker Straße 1 D 39596 Arneburg Germany T: (49) 39321 550 F: (49) 39321 55108 info.mh@mercerint.com	<b>Mercer Celgar Limited Partnership</b> PO Box 1000 Castlegar, BC Canada, V1N 3H9 T: (1) 250 365 7211 F: (1) 250 365 4211 info.mcc@mercerint.com
<b>Mercer Peace River Pulp Ltd.</b> #1 Pulp Mill Road, P.O. Bag 4400 Peace River, Alberta T8S 1V7 Canada T: (1) 780 624 7000 info@mercer-peace-river.com	<b>Cariboo Pulp &amp; Paper Co.</b> 50 North Star Rd Quesnel, BC Canada V2J 3J6 T: (1) 250 992 0200 F: (1) 250 992 2164	<b>Mercer Timber Products GmbH</b> Am Bahnhof 123 07929 Saalburg-Ebersdorf Germany T: (49) 36651 80110 F: +49 (0)36651 80109 info@mercertimber.com
<b>Santanol</b> 17-21 Coulson Way Canning Vale, Perth, WA 6155 Australia Ph: +61 (0)8 9242 1594 info@santanol.com		

## INVESTOR RELATIONS AND MEDIA CONTACTS

<b>David M. Gandossi</b> President, CEO and Director
<b>David K. Ure</b> Senior Vice President, Finance, CFO and Secretary

<b>Mercer International Inc.</b> Suite 1120 - 700 West Pender Street Vancouver, BC Canada V6C 1G8 Telephone: (1) 604 684 1099 Facsimile: (1) 604 684 1094 e-mail: info@mercerint.com
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## AUDITORS

<b>PricewaterhouseCoopers LLP</b> 250 Howe Street Suite 700 Vancouver, BC Canada V6C 3S7
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## LEGAL

<b>Sangra Moller LLP Barristers and Solicitors</b> 1000 Cathedral Place 925 West Georgia Street Vancouver, BC Canada V6C 3L2
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## INCORPORATION

<b>Washington State, USA</b>
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## WEBSITE

<b>mercerint.com</b>
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## STOCK LISTINGS

<b>NASDAQ Global Market</b> Trading Symbol: MERC
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## TRANSFER AGENTS

<b>Computershare Investor Services</b> P.O. BOX 505000 Louisville, KY 40233-5000
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OR

<b>Computershare Investor Services</b> 462 South 4th Street, Suite 1600 Louisville, KY 40202 Toll Free# 800-522-6645 Foreign Shareholders: 201-680-6578
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## SHAREHOLDER WEBSITE

<b>www.computershare.com/investor</b>
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