



# MADISON'S TIMBER PREVIEW

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Last week Brookfield Asset Management sold Longview Timber and Longview Fibre Paper and Packaging to Weyerhaeuser and KapStone Paper and Packaging, respectively, in two separate transactions totaling nearly \$3.7 billion, which include approximately 645,000 acres of high quality timberlands in Washington State and Oregon. The deals are expected to close in late July. Longview is North America's largest kraft paper packaging papermaker.

In early February 2007 Brookfield announced it acquired Longview Fibre for approximately US\$2.15 billion including, assumed debt. The share-purchase deal represented an 18 per cent premium to the company's trading price prior to the day's announcement. With this transaction, Brookfield acquired 588,000 acres of prime, freehold timberlands in Washington and Oregon, and a network of corrugated container plants across the US.

Brookfield then split the timberland assets off from the paper manufacturing business.

The company immediately embarked on significant reorganization and restructuring of the paper and packaging mill in Longview, WA. Twelve paper machines became five, with two more available if markets dictated. By April 2010 the mill could produce 1.6 million tons/year of pulp and 1.3 to 1.6 million tons/year of kraft and corrugated paper. The 2010 paper production budget was just under one million tons total; 380,000 tons of kraft paper and 620,000 tons of containerboard, according to company statements.

The improvements came at a judicious time for Longview as about the time the project was finished, one of its competitors, Eurocan -- based in Kitimat, BC -- closed permanently.

Brookfield first put Longview up for sale in January 2011, hiring Bank of America Corp to run the sales process, according to *Reuters*.

Last week's sale price had people asking, "*What Does Weyerhaeuser Know?*".

The company paid approximately US\$4,100 per acre, or a 33 per cent premium over 2012 prices, said Tom Kametz of *SeekingAlpha* Thursday.

"Comp sales that I was able to find showed the average Pacific NorthWest acre to have sold for US\$2,494 per acre in 2011, and US\$3,088 per acre in 2012," detailed Kametz.

Year	Seller	Buyer	Location	Acres (000)	Price (Million \$)	Per Acre (\$)
2012	GMO	Campbell Group	WA	53.4	162.0	3,033
2012	Private (Davidson)	FIA	OR	12.8	60.0	4,687
2012	Plum Creek	FIA	OR	16.6	58.0	3,493
2011	Rayonier	Weyerhaeuser	WA	6.3	25.2	4,000

Source: RISI  
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The purchase increased Weyerhaeuser's total acreage by almost 10 per cent and its Pacific NorthWest acreage by about 33 per cent.

RISI's Chris Lyddan came to the same calculation, and explained further June 20, "It's all about achieving a dominant log export position for decades to come. Only Weyerhaeuser can align the whole supply chain: land, timber, harvesting, export terminal and overseas marketing, even full-vessel shipping."

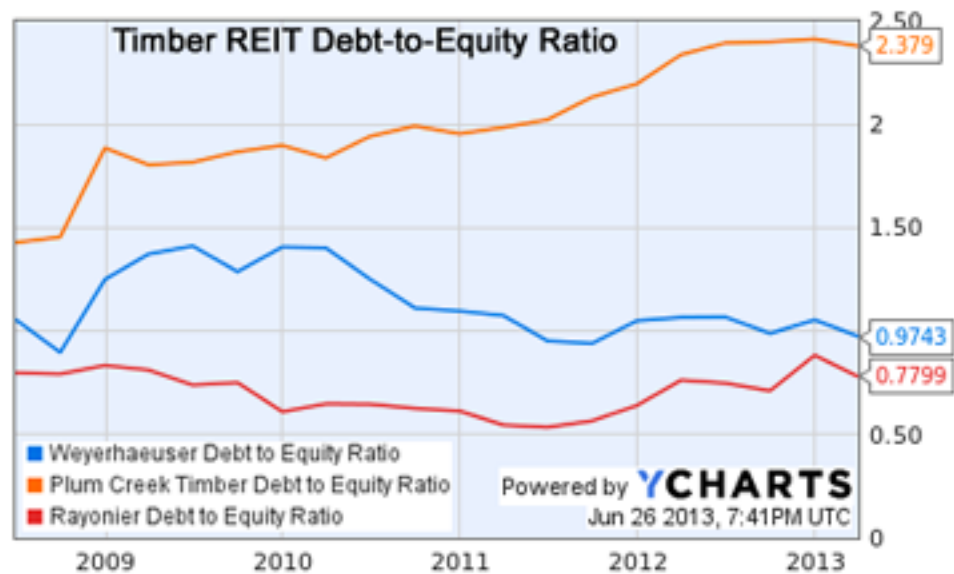
Continued Kametz, "Weyerhaeuser says it's considering a sale or spinoff of a home-building subsidiary, Wreco. The net takeaway: it's doubling down on direct timber ownership and looking to cash out of a main consumer of said timber."

Wreco took in at least US\$1 billion in revenues in 2012.

"Weyerhaeuser's debt-to-equity ratio is below 1.00; that makes it far more stable than Plum Creek Timber," said Kametz. "But it's still more leveraged than the other major US timber REIT, Rayonier, which operates in the Southern states."

An analyst at *Motley Fool* wrote about the Weyerhaeuser deal Wednesday.

"It is questionable whether Weyerhaeuser will be able to sustain its cash hoard of under US\$700 million with a levered free cash flow figure of less than US\$50 million. This may explain why Weyerhaeuser has elected to fund the Longview deal with a partial equity sale," said Mike Thiessen.



But the most valuable insight comes from Lyddan. He says that although much smaller, other -- mostly Douglas fir -- land sales in the US West since 2011 have ranged from US\$3,033-\$4,687 per acre, those four sales over the period, of a combined 89,000 acres, averaged a respectable US\$3,427 per acre. Up to one-third, or about 200,000 acres, of the Longview Fibre land could be sold off over time for being too remote or for having too little Douglas fir. Longview's composition is 66 per cent Douglas fir, 20 per cent hemlock, and 14 per cent other species, across five tree farms in Oregon and three in Washington, Lyddan explains.

The fact that Weyerhaeuser will be well poised to send this high-value northwest timber to a hungry market in Japan going forward is lost on no one.

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