



MADISON'S TIMBER PREVIEW

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As predicted in previous issues of *Madison's Timber Preview*, investment sharks are beginning to focus on forest companies. Big or small, fit or ailing, solid wood or paper, all are clearly so devalued in terms of the stock market that financial interests of all kinds can't help but take notice. The latest to become the 'next big thing' is Boise Inc.

Boise Cascade Holdings, LLC is ranked as the thirteenth largest forest products company in the world. The company is a diversified holding company engaged in manufacturing engineered wood products, plywood, lumber, and particleboard and distributing a broad line of building materials. Boise recorded revenues of US\$2,977.5 million during 2008, a decrease of 45 per cent over 2007. Its net loss was \$288 million in 2008, compared to the net profit of \$128 million in 2007.

In 1902 Cascade Lumber Company was founded in Yakima, WA. Boise-Payette Lumber Company of Boise, ID, was incorporated in 1913 by Frederick Weyerhaeuser and associates, from a merger of the Payette Lumber & Manufacturing Company and Barber Lumber, a Wisconsin company with operations in the Boise Basin. In 1902, Payette Lumber, a Minnesota firm, had acquired 33,000 acres (130 km²) of state timber in Idaho's Long Valley near the present-day city of Cascade. Between 1913 and 1947, Boise-Payette received at least 172,000 acres of the public lands that had been granted to the Northern Pacific Railroad.

Boise Cascade Corporation was formed in 1957 as the result of the merger between Cascade Lumber and Boise-Payette.

Initially, Cascade Lumber owned timberland at the headwaters of the Yakima River, which it had purchased for \$100,000, and also operated several retail lumberyards in the area in addition to its Yakima mill. These yards were closed in 1914 and consolidated into one lumberyard at the Yakima sawmill, which continued operating even after the merger with Boise-Payette. Combining the resources of the two firms would enable the resulting company to build a base of raw materials large enough to allow it to expand beyond lumber production into the manufacture of paper and pulp products.

In 1958 the company built a kraft pulp and paper mill in Wallula, WA, and corrugated container plants at both Wallula and Burley, ID. The paper and pulp area grew rapidly over the next five years with further expansion of the company's paper and wood production capacity. In spite of this success, the management team recognized how vulnerable the company was due to the cyclical nature of the wood and paper industries. They decided to diversify into other areas as a hedge against possible downturns in demand for its forest products.

By the 1960s Boise Cascade held ten billion board feet on 1.5 million acres in the Northwest, Midwest, and Southern US, and in the Philippines; it had cutting rights to another four million acres in Canada.

In 1964 Boise Cascade entered the office products distribution business. By 1969 the company had completed over 30 mergers and acquisitions and had become the third largest forest products company in the United States. Its operations encompassed such diverse activities as residential and mobile home construction, recreational vehicle production, publishing, and cruise management. Despite its efforts to diversify into engineering, construction, and real estate, Boise Cascade eventually had to retrench in order to concentrate on producing and distributing paper and other office supplies.

At the end of 1999, the assets of Boise Cascade amounted to a total of US\$5.1 billion. Boise Cascade and its subsidiary Boise Cascade Office Products (in 2004 renamed OfficeMax) issued various forms of bonds to finance their activities. Outstanding at the end of 1999 was US\$1.3 billion. As of 1999, Boise Cascade owned or leased more two million acres in the United States, however only a third of the billion board feet of sawtimber and a million and a half cords of pulpwood Boise Cascade mills consumed in 1998 came from its own land.

By 2001 the company got 70 per cent of its revenues and 90 per cent of its profits from office products and paper.

Like all other North American forest products companies, since the US housing market crash of 2006 Boise's financial statements have been suffering. The company launched various efforts of diversifying then retrenching, merging and spinning off of assets, finally resorting to mill closures at approximately half its operations in order to save costs.

In February 2008, Aldabra 2 Acquisition Corp. purchased the paper and packaging assets of Boise Cascade, and Boise Inc. was formed. Company stock values fell from US\$9.15 at the end of June 2007 to US\$0.43 at the beginning of January 2009.

In March of 2009 a stock evaluation service called Stansberry Research, in conjunction with colleagues at the Daily Wealth, were able to access certain figures in the company's Blue Sheet "stock buyer" data, indicating a big upward move was on the way. After sharing this information with the public, shares of the paper company shot up 936 per cent in just under 2 months. This week Boise stocks were trading at US\$2.09.

A quote from the Stansberry Research web site information page states, "What in the world would cause this company's stock to rise so much so fast? I don't know. And to be quite candid, I don't care! You see, in the short term, stocks rise and fall for a variety of reasons... many of which you and I can never know. Perhaps corporate insiders are buying or selling... Maybe a pension fund just took a position. Who knows? And really, who cares?"

The web page goes on to say, much later, "It shot up in value because thousands of new investors wanted shares. Like I said before, no one knew exactly WHY all of these people suddenly wanted shares of an obscure paper company with ailing operations."

Stansberry released similar data on two US auto supply manufacturers with similar results of increased stock value in the short term.

Scavengers are looking for good bets to place, and they are finding forest products companies appealing. As the US home building industry slowly begins to get back on its feet, this kind of stock trading activity is going to spread to other North American forestry companies. Those who get in soon, and wait out this year, will likely also see returns of similar proportions.

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