



MADISON'S TIMBER PREVIEW

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In 2004 bondholder Brookfield Asset Management took over bankrupt Doman Industries to eventually create Western Forest Products, the largest forestry operator on the west coast of British Columbia. Company fortunes did no better under Brookfield than they had been with the Doman family. By January 2009, WFP announced extended closures at all but its two Port Alberni sawmills, and a logging curtailment in the Queen Charlottes and the Lower Mainland, adding 720 to the 2,000 workers laid off by mid-2008. (Refer to the January 16, 2009 issue of your *Madison's Timber Preview* for further details).

An exciting deal recently struck will likely bring an increase in supply of good quality western red cedar into Texas, thus expanding that area's awareness of cedar versatility and beauty. WFP's largest Texas based distributor, Cedar Creek Wholesale Lumber, has signed on new partners/investors in order to expand across the Southeastern US with a newly acquired major distribution centre in Houston, where they had no presence before. In concert with Charlesbank Capital Partners, Cedar Creek has now bought a bunch of their smaller competitors and will magnify its market share in cedar in the south.

Considered the US's largest cedar distributor, Cedar Creek supplies lumberyards and building supply retailers across a 13-state area. The company began as one yard in Tulsa, OK, in 1977. Currently with eight locations in seven states employing a staff of 400, founder Clark Wiens projects sales of \$500 million this year.

On May 20, Cedar Creek and private equity firm Charlesbank Capital Partners announced a recapitalization whereby Charlesbank will acquire majority ownership of Cedar Creek.

"It's been a tough two years, but we never lost money," said Wiens in a company press release. "We just kind of hung in there."

In the 2008 ranking by sales of US lumber companies by Home Channel News, Cedar Creek was ranked 17 with sales of US\$578 million for 2007.

Through this asset purchase and capital investment, Boston-based Charlesbank intends to fuel Cedar Creek's expansion, both organically and through acquisition, as the national economy improves.

"We're expecting improvements in both fronts over the next three to five years," said Maura Turner, vice president of communications for Charlesbank.

Based in Boston and New York, Charlesbank is a middle-market private equity investment firm managing more than \$2 billion of capital. Charlesbank focuses on management-led buyouts and growth capital financings, typically investing \$50 million to \$150 million per transaction in companies with enterprise values of \$100 million to \$750 million.

Bill Adams, recently appointed Chair and CEO of Cedar Creek said, "Cedar Creek is customer-focused and service-oriented, and has had a loyal customer base for years."

"Specialty products comprise about 40 per cent of Cedar Creek's inventory, compared to 20 per cent with most competitors. That makes Cedar Creek less vulnerable to lumber and other inventory commodity price shifts."

"Cedar is our primary product line, making up about 50 per cent of our business," said Pat Miller, Regional Manager for Cedar Creek Texas, in a phone interview with *Madison's*. "WFP and Mill & Timber supply about 90 per cent of our product. The western red cedar market in Texas is about 125 mmfbm annually, Cedar Creek accounts for about 50 per cent of that."

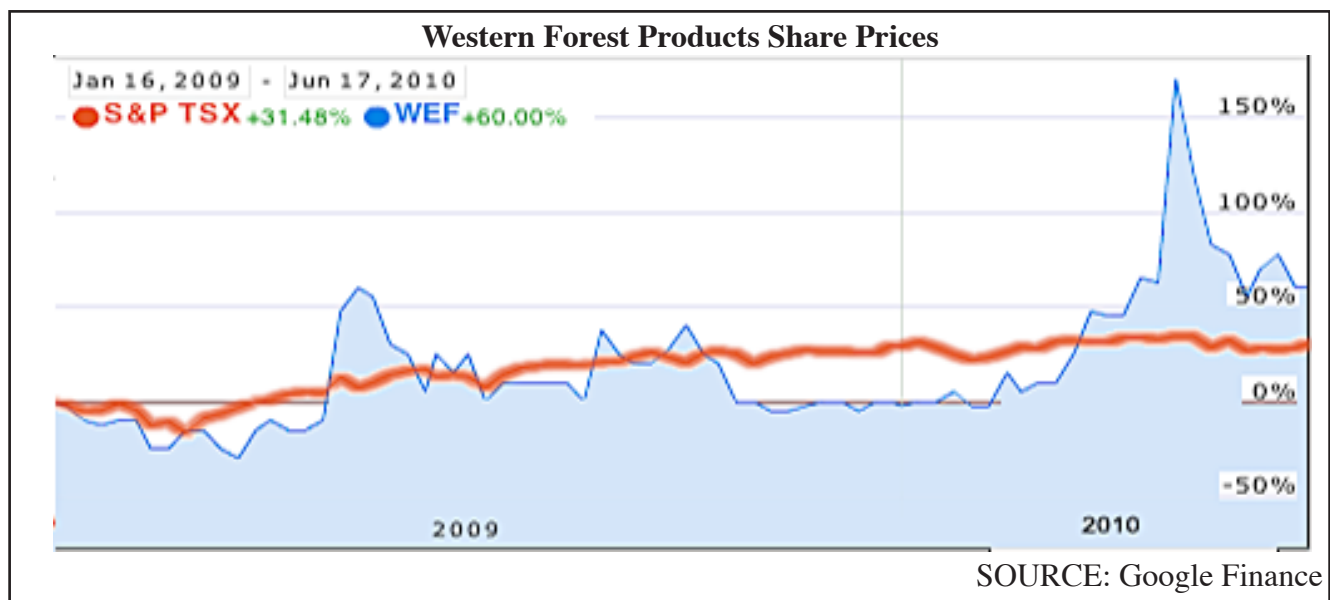
"Our reasons for making the expansion deal are: to gain better distribution and a larger footprint in Texas; to pick up new business; to become more efficient; and to lower our costs. We intend to create more demand for cedar. As a wholesaler we sell into retail yards and the big box stores."

Miller continued, "Cedar is in demand, Texas has the largest outdoor living market in the US. This region accounts for the largest market for cedar commons in the country. Our company is important for big manufacturers like WFP as an outlet for commons, so they can get their higher-value clears into the US north east, up the highway."

Miller explained that a slow-down in Texas causes a buildup of cedar inventory, so much so that companies are sometimes forced to curtail production.

When asked how long before this projected increase in demand out of Texas will be felt at the mill level, Miller said, "It will likely be 2011 before there we increase our orders out of the west coast. Right now we are stocking our distribution centres out of our existing yard. Cedar Creek really wanted to break into the Houston market. That city lead the country in housing starts for three years in a row. It just happened that our expansion plans and the recapitalization with Charlesbank occurred simultaneously."

Madison's also spoke to Gary Ley, Media Contact for Western Forest Products. Unfortunately, Ley did not expect to be able to get back to *Madison's* with more information before press time.



WFP's austerity measures mentioned above, as well as reducing production this year to only 650,000 board feet of lumber — less than 40 per cent of its present capacity, seem to be reflected in increased company share prices. In last year's dismal market, Western logged only 3.2 million cubic metres, less than half its allowable annual cut. All of the company's private lands, a legacy of Doman Industries, are to be sold. Some Crown tenures, such as Western's Haida Gwaii tree farm licence, are also being sold. There has been no wood coming off that tree farm licence for several years while land-use plans are formalized.

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