



MADISON'S TIMBER PREVIEW

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Chad Wasilenkoff, CEO of North Vancouver's Fortress Paper Ltd, is a finalist for the Ernst & Young Entrepreneur Of The Year 2010 Awards, in the Manufacturing section. Winners for the Pacific Division will be announced at a gala banquet September 28. In order to qualify, "Entrepreneurs should draw on the intellectual and cultural strength of their people, suppliers and partners to boost creativity and design better products and services. Companies that step up their innovative abilities can take their businesses to new heights and change our lives for the better," says a July 6 Ernst & Young press release.

In that regard, Wasilenkoff certainly qualifies. Since 2007, his leadership has taken Fortress Paper from a leading international developer, producer and marketer of security and other specialty papers to an important producer of dissolving pulp sold mostly into Asian textile mills. Please see the March 26, 2010 issue of your *Madison's Timber Preview* for background details on Fortress Paper.

The former Fraser Papers Thurso, QC, paper mill, idled in June 2009 and Fortress' latest acquisition, is up and running again, producing hardwood pulp until the conversion to dissolving pulp is completed in approximately one year. The company is awaiting shipment next month on three digesters and other specialized processing equipment from Finland's Stora Enso Oyi Cellulose Inc, which will be used to transform the hardwood pulp mill into a facility that makes a key ingredient used in the manufacture of rayon. The Thurso mill, which employs 300 people, is expected to produce 200,000 tonnes a year of dissolving pulp. Fortress anticipates tidy margins, given that the spot price for the commodity is in the \$1,650 a tonne range and total cost for production and delivery should come in at about \$600, according to the *Globe and Mail*.

In the June 25 issue of *Value Investigator*, ABC Funds managers say of Fortress Paper, "All in all, we are pleased with management's progress and expect our investment in the Company to continue to perform well."

Taking a wider view, there is currently interest brewing in paper production, as several grades are beginning to recover from the economic downturn. Most important of these is newsprint, the first to suffer when business slows and the last to rebound. Containerboard prices have already gone through at least two price hikes in 2010, as detailed in the June 30 issue of your *Madison's Timber Preview*. Newsprint prices are beginning to climb both in North America and Europe.

While down €98 from the beginning of the year, European newsprint prices are up almost €1 this week to €411 per metric ton, according to FOEX.fi. In North America, 30 lb newsprint is up US\$77 since the beginning of 2010, and up US\$3.65 this week, to US\$597 per metric ton. US newsprint exports were up 73 per cent in June compared to one year ago, and the utilization rate went over 100 per cent for the first time in years, reports FOEX.

"US Newsprint prices are now up \$165 from their August 2009 lows," says Chip Dillon, Research Analyst for Paper & Forest Products at Credit Suisse, in his July 26 letter.

"The low end of coated paper prices (which is what Credit Suisse tracks as the benchmark) finally began to rise in July to reflect the recent initiatives to raise the coated paper prices in the US," explains Dillon.

"East coast 30 lb US newsprint prices are now up 44.8 per cent from the August 2009 low of \$435 metric ton," details Mark Wilde, Paper & Packaging Research Analyst for Deutsche Bank in his July 26 paper pricing letter. "The June operating rate was 101 per cent, total demand was down 2.4 per

cent compared to June 2009, with exports up 73 per cent compared to one year ago. Anecdotal reports suggest that based on improved demand & capacity reductions, producers are considering an Oct price increase."

In Europe, CEPIPRINT June data released this week shows estimated European newsprint demand up 6.8 per cent compared to June of last year. Cumulative first half of 2010 demand was up 1.5 per cent compared to 2009, and total European newsprint shipments were 5.6 per cent higher than January to June of 2009.

Newspaper advertising is finally starting to see its own recovery. Major publishing companies are showing some of the first signs of improvement in advertising revenue since the economic downturn in 2007. The numbers are still decreasing, but the declines are levelling off, as auto makers, financial institutions and luxury retailers have begun to spend more on print campaigns. Investors were surprised last week when New York Times Co. posted a 1 per cent increase in revenue, the first rise in three years. Gannett, publisher of USA Today and dozens of other newspapers, beat profit expectations after print ad revenue fell by 6 per cent, representing the fifth consecutive quarter of decreasing losses. The Wall Street Journal, meanwhile, says advertising revenue rose 11 per cent in the second quarter, according to the Globe and Mail.

McClatchy Company, the third-largest newspaper company in the US, released 2Q 2010 results on July 29. Gary Pruitt, Chair and CEO said, "Advertising revenue trends continued to improve as we anticipated. Advertising revenues declined year-over-year by 8.2 per cent compared to declines of 11.2 per cent in the first quarter of 2010 and 20.5 per cent in the fourth quarter of 2009. We were also encouraged by the improving trends within the quarter: advertising revenues were down 10.2 per cent in April, down 7.3 per cent in May and down 6.4 per cent in June."

US Newspaper publisher A. H. Belo Corporation released 2Q results on July 26. Robert Decherd, Chair, President and CO, said, "Second quarter total revenue decreased 4.7 per cent compared to 2009. This rate of decline is less than in the first quarter of 2010 and is the lowest year-to-year per cent decline in more than two years. Unadjusted consolidated EBITDA increased 43.7 per cent compared to the second quarter of 2009. Improvement in the Company's EBITDA was primarily driven by The Dallas Morning News."

Even the beleaguered New York Times has stabilized overall revenues, grown digital advertising more than 20 per cent and doubled its operating profits to US\$61 million in 2Q 2010 compared to the same period a year ago. The Times has been able to grow circulation revenue for a year now with price increases more than making up for circulation declines. Next quarter, the price increases will have cycled through, CEO Janet Robinson said, and circulation revenues will probably decline 3 to 5 per cent year to year.

Over in the UK, Trinity Mirror's adjusted pre-tax profits surged 61 per cent to £50.4 million in the six months to 4 July, said a company release dated July 29. The publisher recorded a return to advertising growth across its national titles, with ad revenue up 2.2 per cent year on year, although revenue continued to slide at the 150-paper strong regional newspaper operation to the tune of 7.2 per cent. Adjusted operating profit climbed 25.7 per cent to £61.7 million.

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