



MADISON'S TIMBER PREVIEW

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In sharp contrast to the past three years, forest industry players in 2011 have launched into a mad round of acquisitions, mergers, sales, and asset exchanges. At the half-year mark there are no less than 14 transactions taking place between timber holders, solid wood producers, pulp operators, and the containerboard sector. Some, like the RockTenn/Smurfit deal have been examined in previous issues of *Madison's Timber Preview*. Others, like the International Paper/Temple-Inland drama continue to unfold at the time of writing, with IP slated for an analyst conference call Thursday morning. In news of deals completed but not entirely transparent, is Weyerhaeuser's sale of its Northwest Hardwoods operations to American Industrial Partners for an undisclosed amount. Also breaking Thursday morning is Domtar's 2Q results and financial outlook for the rest of this year.

Madison's will cover as much of these developments as possible within limits.

The RockTenn takeover of Smurfit-Stone Container Corp continues more or less smoothly, despite a class-action shareholder lawsuit against RockTenn and subsequent counter-claim by the company. Please refer to the January 28 issue of your *Madison's Timber Preview* for details on the acquisition. At that time it was understood that certain Smurfit operations would have to be closed but no official announcements had yet been made.

In early June RockTenn announced the closure of three Smurfit corrugated box plants, located in Birmingham, AL, Jonesboro, AR, and Santa Fe Springs, CA, with production to be consolidated to nearby RockTenn facilities. In early July the *Williamsport Sun-Gazette* reported that multiple sources had indicated the local Smurfit plant will close, and that the employer was being tight-lipped about it. Reporters with WNEP.com said they spoke with company officials who confirmed about 100 positions would be eliminated by the closure. Employees told a WNEP reporter that the possibility of severance pay was contingent on not speaking to reporters about the plant's pending end.

RockTenn's 3Q results release has been moved to August 2, 2011, after markets close. Analysts can't seem to decide on what to make of the company, with some declaring share prices undervalued and others wary of the debt load. JP Morgan in mid-July upgraded RockTenn from Overweight to Neutral, while analysts at DeutscheBank recently downgraded the company from Buy to Hold. A closer look reveals that RockTenn ranks lowest of the major North American paper packaging companies with a Current Ratio of 1.13. Current ratio is useful to get an idea of how quickly a company can repay its short-term liabilities with its short-term assets. The higher the current ratio, the more capable the company is of paying its obligations.

However, RockTenn ranks first in its sector with free cash flow per share of 7.06x. Free cash flow per share is a valuable metric signalling a company's ability to facilitate growth in the business.

It's safe to say there will be a lot of interest in RockTenn's upcoming quarterly release, and conference call the next day.

International Paper's hostile takeover of Temple-Inland, for US\$30.60 per share, is moving forward despite an accusation filed against Temple's board of directors of a violation of its duty to shareholders. On Monday a shareholder sued the board to roll back Temple's "poison pill" defense against IP's US\$3.3 billion hostile takeover, charging that Temple should negotiate to improve the bid or to begin a sale process

for the company. In a filing Wednesday with the US Securities and Exchange Commission, investigators asked for "additional information and documentary material." This amounts to a second request from the US Justice Department for more information related to the proposed deal.

IP executives Thursday declared the company would be "patient" in the Temple acquisition, explaining they are in negotiations for "the long term".

Buying Temple would increase IP's share of the North American corrugated-packaging market to about 37 per cent, from about 27 per cent, IP CEO John Faraci said in an interview with *Bloomberg* on June 6. It would also enable cost cuts in IP's corrugated-packaging business. It would increase the company's earnings in the first year following the takeover, explained Faraci.

Early Thursday morning IP released 2Q results showing its earnings had more than doubled over the same time last year. Company share prices promptly jumped 3 per cent, from \$29.87 at market close Wednesday to \$30.95 first thing Thursday morning.

Its 2Q earnings were US\$224 million, or 52 cents per share, compared to US\$93 million, or 21 cents per share, in 2Q 2010. The company's sales hit US\$6.6 billion in 2Q, compared to US\$6.1 billion for the same period in 2010.

Elsewhere, wrapping up its exit from the lumber production sector and into REIT territory, on June 20 Weyerhaeuser announced the sale of Northwest Hardwoods to a private equity firm, American Industrial Partners. With approximately 1,000 employees, Northwest Hardwoods is the leading manufacturer of high quality hardwood lumber in North America, manufacturing and selling 15 species of hardwood lumber specializing in alder, oak, maple, cherry, walnut, ash, and hickory. The company operates through a US network of seven primary sawmills, four concentration yards, four remanufacturing plants and one merchandizing log yard. The Northwest Hardwoods sale price has not been disclosed, but analysts at DeutscheBank estimate the probable value to be in the US\$100-\$150 million range. This transaction is expected to close in August.

Wednesday Weyerhaeuser announced it finally unloaded Westwood Shipping Lines, which it has been trying to sell since 2008. The buyer of the Federal Way, WA, unit is J-WesCo, a subsidiary of Sumitomo Warehouse in Japan, in a US\$53 million deal that's expected to close next month. Westwood, with reported revenue of US\$246 million last year, has a fleet of seven ships operating between North America and Japan, Korea and China.

Weyerhaeuser is to release its quarterly results Friday morning.

Finally, also Thursday morning, Domtar announced 2Q earnings in which profit nearly doubled, to US\$54 million, or US\$1.30 a share, compared to US\$31 million, or 71 cents US a share, one year ago. However, as sales for the quarter were essentially flat at US\$1.4 billion, revenue fell 9 per cent compared to 2Q 2010. A seasonally high level of maintenance at its mills hampered overall production, accounting for the drop in revenue, according to the company statement.

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