



MADISON'S TIMBER PREVIEW

PO Box 2486, Vancouver, BC V6B 3W7 ✦ Tel: 604-984-6838 ✦ Email: madrep@shawcable.com ✦ Web: www.madisonsreport.com

October 21, 2011

Forbes's annual list of the 100 Best Small Companies was released Thursday in advance of the November 5 issue, with KapStone Paper and Packaging Corp, out of Northbrook, IL, proud to announce it ranked 10th overall. *Forbes* determined the rankings based upon return on equity, growth of earnings and sales, and the relative stock performance of each company as compared with that of its peers over the past 12 months and over five years.

KapStone/US Corrugated is just one of the mergers announced this quarter in the pulp and paper sector, which combined are enough to overwhelm any industry watcher. As well, capacity rationalizations, market expansions, and share repurchases within the sector are moving forward at a fast clip.

Maker of custom corrugated packaging, US Corrugated, based in Newark, NJ, absorption into KapStone Paper and Packaging, with operations in paper, packaging and forest products, for US\$330 million was announced September 22. In 2010, the operations to be acquired from USC generated US\$423 million in net sales. Operation synergies of the combined companies is estimated at US\$8 million per year, to be realized in 18 months, according to a company statement. Dennis Mehiel, Chair and current majority stockholder of USC will retain management and control of six of the 20 USC converting facilities in the eastern and mid-western United States. In addition, USC has a 240,000 ton recycled containerboard paper mill in Cowpens, SC.

Global leader in paper and packaging products based in Memphis, TN, International Paper's takeover of Temple-Inland, supplier of corrugated packaging, forest products, real estate and financial services out of Austin, TX, was initially discussed in the July 29 issue of your *Madison's Timber Preview*. A fierce three-month battle for control completed September 6, and IP will acquire TIN after raising its offer to US\$3.7 billion. IP will acquire all of the outstanding common stock of TIN for US\$32 per share in cash, plus the assumption of US\$600 million in TIN's year-end debt. TIN Chair and CEO Doyle Simons is eligible to receive more than US\$61 million if stockholders approve the deal, while four top executives are in line to receive a combined US\$101 million.

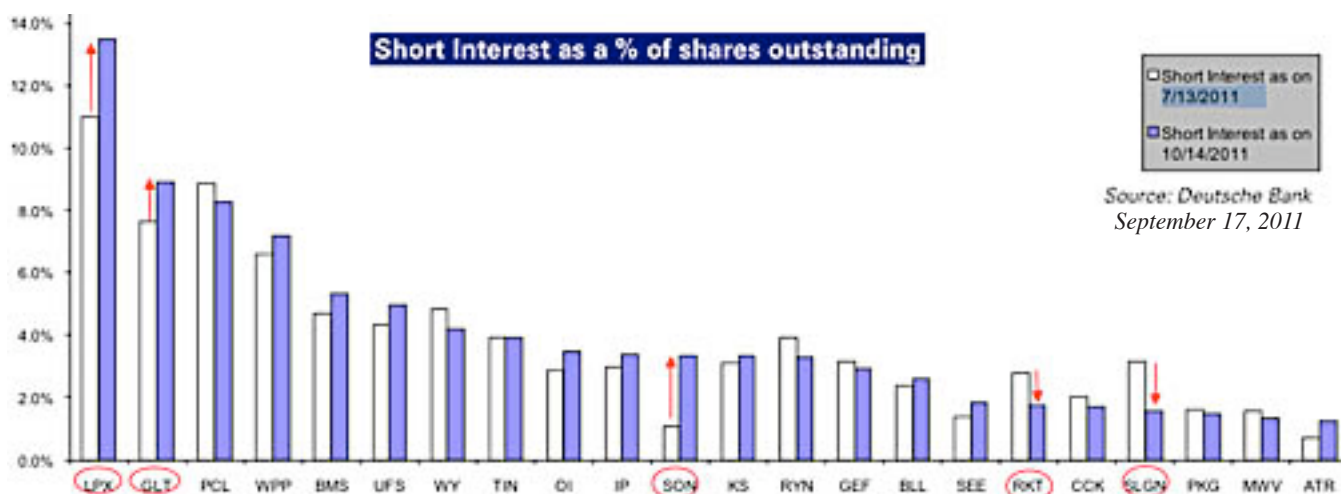
Merging the two companies would increase IP's share of the North American corrugated packaging market from its current 27 per cent to 37 per cent, according to *Bloomberg*.

In 3Q results released Wednesday, TIN reported that one-time charges of US\$15 million, related to the upcoming acquisition, brought TIN's 3Q 2011 net income down to US\$6 million, from US\$125 million in the same quarter last year. In addition, clean-up costs related to a chemical spill at its paper mill in Bogalusa, LA, cost approximately US\$20 million. Excluding those items, the company said it posted an adjusted profit of US\$21 million.

Boise Inc's purchase of the Hexacomb protective packaging business from Deerfield, IL's Pregis Corp for US\$125 million is expected to close at the end of 2011 or in early 2012, both companies announced October 3. The paper and packaging products manufacturer based in Boise, ID, is looking to boost margins through vertical integration, which should bring US\$5.2 million of cost savings within 24

months, according to company estimates. Boise's market capitalization now stands at US\$572 million and its enterprise value is US\$1.1 billion. At the Hexacomb business, about 440 people at 12 manufacturing plants are employed, in total generating about US\$102 million of revenue last year.

In drawing an interesting comparison between Temple-Inland and Boise's valuations on the stock market, Adam Muller of *Seeking Alpha* said October 3, "based on the value International Paper was ascribing to Temple Inland, over 10x trailing EBITDA, at only US\$5.80 per share Boise was grossly undervalued. [. . .] Boise is currently trading at only 3.0x EBITDA, a ridiculously cheap multiple. [. . .] Eventually Boise stock will begin to migrate back towards its fundamental value. If it doesn't, it could become an acquisition target. [. . .] Boise is positioned to provide an above-market return to patient investors."



Not one to confine its activities solely within North America, IP acquired 21.5 per cent of Andhra Pradesh Paper Mills' shares, one of the biggest integrated pulp and paper manufacturing companies in India, in a public tender completed October 8, for approximately US\$105 million in cash. October 14, IP purchased another 53.5 per cent stake in APPM from L N Bangur group for approximately US\$226 million in cash.

IP Tuesday completed acquisition of APPM, for US\$388 million total in cash. APPM is a fully integrated paper manufacturer, employing about 2,500 people and running two paper mills with a combined capacity of 250,000 tons of uncoated woodfree paper annually. This transaction will make IP the first global paper and packaging company to have a significant presence in India's paper and packaging industries.

Keta Kosman
 Publisher
 Madison's Lumber Reporter
 Madison's Timber Preview
 Madison's Investment Rx
www.madisonsreport.com
 604 984-6838