Financial Performance of the Global Forest and Paper Industry

Global Forest, Paper and Packaging Practice PwC

Fred Bouchard
Managing Director,
Deals Montreal
May 11, 2011
### Key Industry Metrics

<table>
<thead>
<tr>
<th></th>
<th>Latest</th>
<th>Prior year</th>
<th>Year over year</th>
<th>Ten-year</th>
<th>Ten-year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lumber</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Composite, Western SPF</td>
<td>262</td>
<td>287</td>
<td>-9%</td>
<td>460</td>
<td>153</td>
</tr>
<tr>
<td>US $/mfbm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lumber</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPF, #2&amp;Btr, US $/mfbm</td>
<td>236</td>
<td>273</td>
<td>-14%</td>
<td>467</td>
<td>153</td>
</tr>
<tr>
<td><strong>OSB</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Central, 7/16&quot;</td>
<td>167</td>
<td>330</td>
<td>-49%</td>
<td>508</td>
<td>131</td>
</tr>
<tr>
<td>basis, US $/msf</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pulp</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NBSK, US $/t</td>
<td>1019</td>
<td>1000</td>
<td>2%</td>
<td>1020</td>
<td>460</td>
</tr>
<tr>
<td><strong>Paper</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newsprint, US $/t</td>
<td>625</td>
<td>560</td>
<td>12%</td>
<td>750</td>
<td>435</td>
</tr>
</tbody>
</table>

1. From May 2001 to May 2011  
2. Monthly Average  
3. Price at May 6, 2011, Random Lengths

**Sources:** Random Lengths, Pulp & Paper Weekly, FOEX
PricewaterhouseCoopers LLP
Canadian forest products exports

(Sales in CAD $ million)

50% drop in exports to United States

Source: Ressources Naturelles Canada
PricewaterhouseCoopers LLP
US housing starts and lumber price: historical correlation

Source: US Census Bureau
PricewaterhouseCoopers LLP
Supply and demand forecast: Canadian softwood lumber production

In 2010, overproduction represented $2 billion

Source: RISI, North American Lumber forecast, April 2010
PricewaterhouseCoopers LLP
Wood Fibre Resources: Global Overview

**Forest area**
- Global: 3.9bn ha (30% of land area).
- Planted forests*: 271m ha (7% of forest area).

*Plantations plus the planted components of semi-natural forest.

**Europe inc. Scandinavia**
- Increasing forest resources.
- Removals below increment.
- Environmental/leisure issues a constraint.
- Wood fuel demand could improve economics for small forest owners.

**Russia**
- Holds 21% of world’s growing stock inc. nearly 50% of world’s softwood.
- Removals well below increment, but large areas are economically inaccessible.

**Asia**
- Highest rate of reforestation, led by China.
- Nearly 50% of world’s planted forests. But huge and growing wood fibre deficit.
- Land and water constraints could limit future plantings.
- Scope to improve yield from existing plantations.

**North America**
- Stable forest resources.
- 18% of world’s growing stock.
- Some scope to increase harvesting levels.
- Insect infestations in West will reduce future supply.

**Southern Cone**
- Highly productive plantations - nearly 10m ha.
- Highly competitive wood costs.
- Planted area could expand by up to 50% by 2020.

**Amazon Basin & Congo Basin**
- Two largest areas of contiguous tropical forest.
- Over 30% of world’s growing stock. Huge biodiversity.
- Sustainable removals are limited.

**Africa (outside Congo Basin)**
- Home to about 5% of world’s growing stock.
- Deforestation continues.
- Outside South Africa, plantations are limited.
- Large land areas suitable for afforestation/reforestation but real potential is uncertain.

**Australasia**
- Some potential to expand supply from plantations – currently about 4m ha.

Source: UN FAO, PwC
PricewaterhouseCoopers LLP
**PwC 2010 Global Top 100: ROCE by Region**

Source: PwC

PricewaterhouseCoopers LLP
PwC 2010 Global Top 100
Return on Capital Employed (%)
**Sector deals:**
*Global total deal values and deal numbers*

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**Figure 1: Total FPP deals, 2003-2010 (inc. year on year % change)**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total deal value (US$bn)</td>
<td>11.4</td>
<td>18.5 (63%)</td>
<td>21.0 (13%)</td>
<td>25.7 (23%)</td>
<td>27.6 (7%)</td>
<td>21.3 (-23%)</td>
<td>18.7 (-12%)</td>
<td>12.7 (-32%)</td>
</tr>
<tr>
<td>Total deal number</td>
<td>224 (13%)</td>
<td>254 (16%)</td>
<td>295 (-5%)</td>
<td>380 (32%)</td>
<td>370 (-5%)</td>
<td>350 (5%)</td>
<td>369 (4%)</td>
<td>385</td>
</tr>
<tr>
<td>Average value (based on deals where value reported)</td>
<td>90.2 (47%)</td>
<td>132.3 (-3%)</td>
<td>128.0 (32%)</td>
<td>169.4 (-21%)</td>
<td>134.6 (-18%)</td>
<td>111.0 (-14%)</td>
<td>95.6 (-14%)</td>
<td>68.2 (-29%)</td>
</tr>
</tbody>
</table>

Source: PwC Forest, paper and packaging deals: Branching Out – 2010 Annual Review
PricewaterhouseCoopers LLP
**Sector deals:** Forestland, converting/distributing deal values slightly up on 2010; continued falls in other sectors

Key statistic:
US$12.7bn in 2010: (down 32% YoY)

Source: PwC Forest, paper and packaging deals: Branching Out – 2010 Annual Review
PricewaterhouseCoopers LLP
Regional focus: Europe moves to top of the table, emerging markets remain strong

Key points:

Europe: largest share (36%) of worldwide deal value for the first time since data series began (2003) and the only continent with US $1bn plus deals

North America: revived after a virtual collapse in 2009 - deal numbers rose 47%

Latin America: share falls, but remains higher than in years prior to 2009

Asia Pacific: deal numbers and value dipped year-on-year in 2010 but the value share of all deals increased to 25%; the highest level in our data series

Source: PwC Forest, paper and packaging deals: Branching Out – 2010 Annual Review
PricewaterhouseCoopers LLP
## Regional focus: North America

### Top North America M&A Deals 2011

<table>
<thead>
<tr>
<th>Month announced</th>
<th>Deal Value (US$m)</th>
<th>Target</th>
<th>Target Nationality</th>
<th>Acquirer</th>
<th>Acquirer Nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>3,500</td>
<td>Smurfit-Stone</td>
<td>United States</td>
<td>RockTenn</td>
<td>United States</td>
</tr>
<tr>
<td>April</td>
<td>1,263</td>
<td>TimberWest Forest Corp.</td>
<td>Canada</td>
<td>BC Investment Management Corp.; Public Sector Pension Investment Board</td>
<td>Canada</td>
</tr>
<tr>
<td>March</td>
<td>361</td>
<td>Andhra Pradesh Paper Mills Limited (75% Stake)</td>
<td>India</td>
<td>International Paper Company</td>
<td>United States</td>
</tr>
<tr>
<td>April</td>
<td>143</td>
<td>MagIndustries Corp. (TSX:MAA)</td>
<td>Canada</td>
<td>Evergreen Industries Holding Group Co., Ltd.</td>
<td>China</td>
</tr>
<tr>
<td>February</td>
<td>89</td>
<td>PECO Pallet, Inc.</td>
<td>United States</td>
<td>The Pritzker Group</td>
<td>United States</td>
</tr>
<tr>
<td>March</td>
<td>N/A</td>
<td>Northern Pulp Nova Scotia Corporation; Northern Timber Nova Scotia Corporation</td>
<td>Canada</td>
<td>Paper Excellence Canada Holdings Corp.</td>
<td>Canada</td>
</tr>
<tr>
<td>February</td>
<td>N/A</td>
<td>Norampac Avot Vallee Sas</td>
<td>Canada</td>
<td>OpenGate Capital</td>
<td>United States</td>
</tr>
</tbody>
</table>

Source: Mergermarket, Capital IQ

PricewaterhouseCoopers LLP
Thank You