

PWC's Annual Global Forest & Paper Conference 2011: Setting Up for a Repeat of 2010

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All values in Canadian dollars unless otherwise noted.

For Required Non-U.S. Analyst and Conflicts Disclosures, please see page 17.



RBC Capital Markets®

What I will Attempt to Cover this Morning

- RBC Capital Markets
- Paul Quinn
- Commodity Overview
 - We estimate that changes in commodity pricing are responsible for 70% of the changes in valuation
 - We like Pulp and Paper, but are not fond of Lumber, OSB and Timberlands at this time
- Relevance of the Forest Products Sector to North American Capital Markets
- Valuation – Cost, Margin, Liquidity, Return on Equity
- How to Improve the Industry's Access to Capital

RBC and Paul Quinn

- **RBC Capital Markets**

- Best Investment Bank in Canada (Euromoney 2010)
- 12th largest investment bank globally (by fees)
- Over 75 offices in 15 countries

- **RBC Capital Markets Global Research**

- #1 for Canadian Equity Research (2011 Greenwich Associates)
- Highest number of TopGun (top 3) ranked analysts in Brendan Wood 2010 survey
- 1,340+ stocks under coverage, including nearly 800 U.S. stocks

- **Paul Quinn**

- Canadian and U.S. Paper and Forest Products analyst at RBC since 2008
- TopGun analyst (Brendan Wood 2010 survey)
- StarMine rankings for stock picking
- Former Assistant Director of Research at Saloman Partners
- Industry experience at MacMillan Bloedel and Weyerhaeuser

RBC CM Paper & Forest Products Coverage Universe

Paul Quinn, Canadian and U.S. Paper & Forest Products analyst at RBC since 2008

– 19 companies under coverage



Canfor Pulp Products Inc.



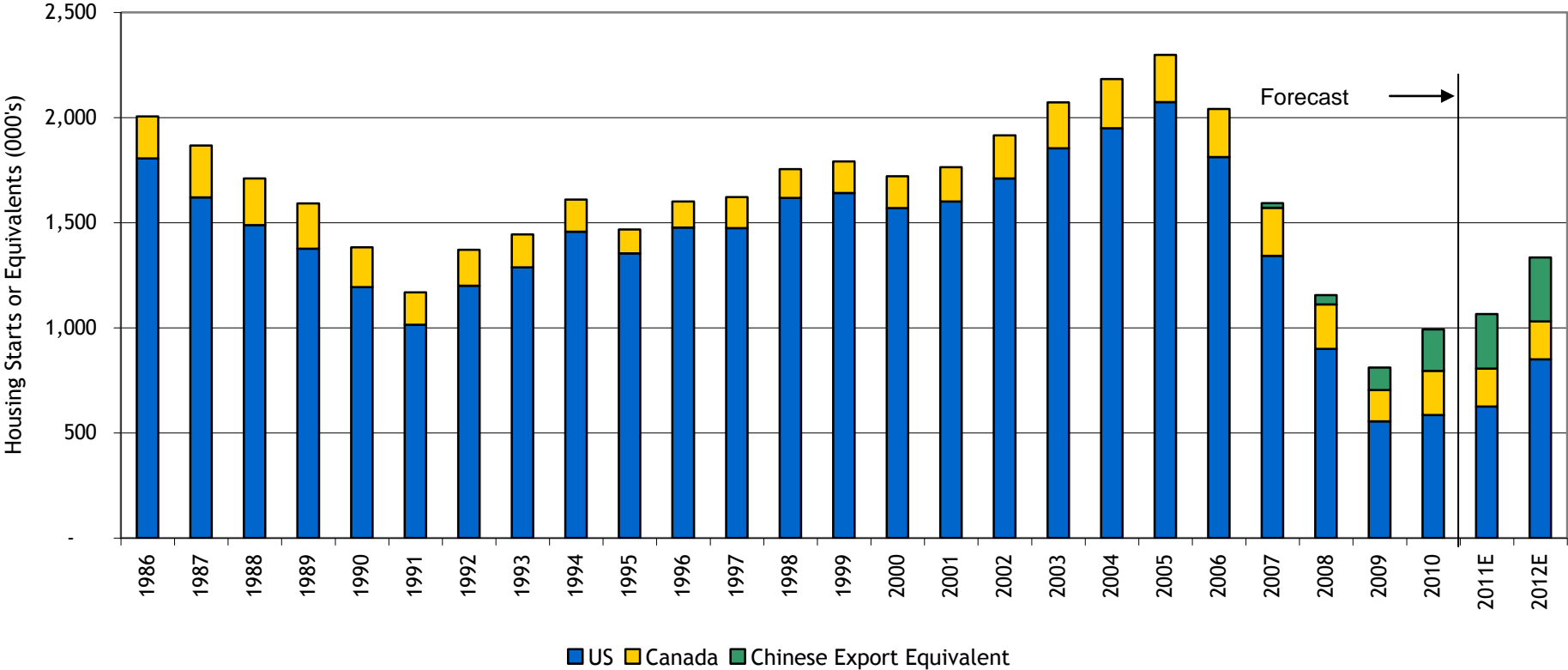
M E R C E R



Even with Solid Canadian and Robust Chinese Activity, Total “Starts” are Weak

- North American lumber shipments to China totalled 2.8 Bfbm in 2010 (~300K Starts)
- RBC Forest Products Forecast is for 625K US Starts in 2011, 850K in 2012 and we believe we are very “Optimistic”

North American Housing Starts - US, Canada and Chinese Export Equivalent

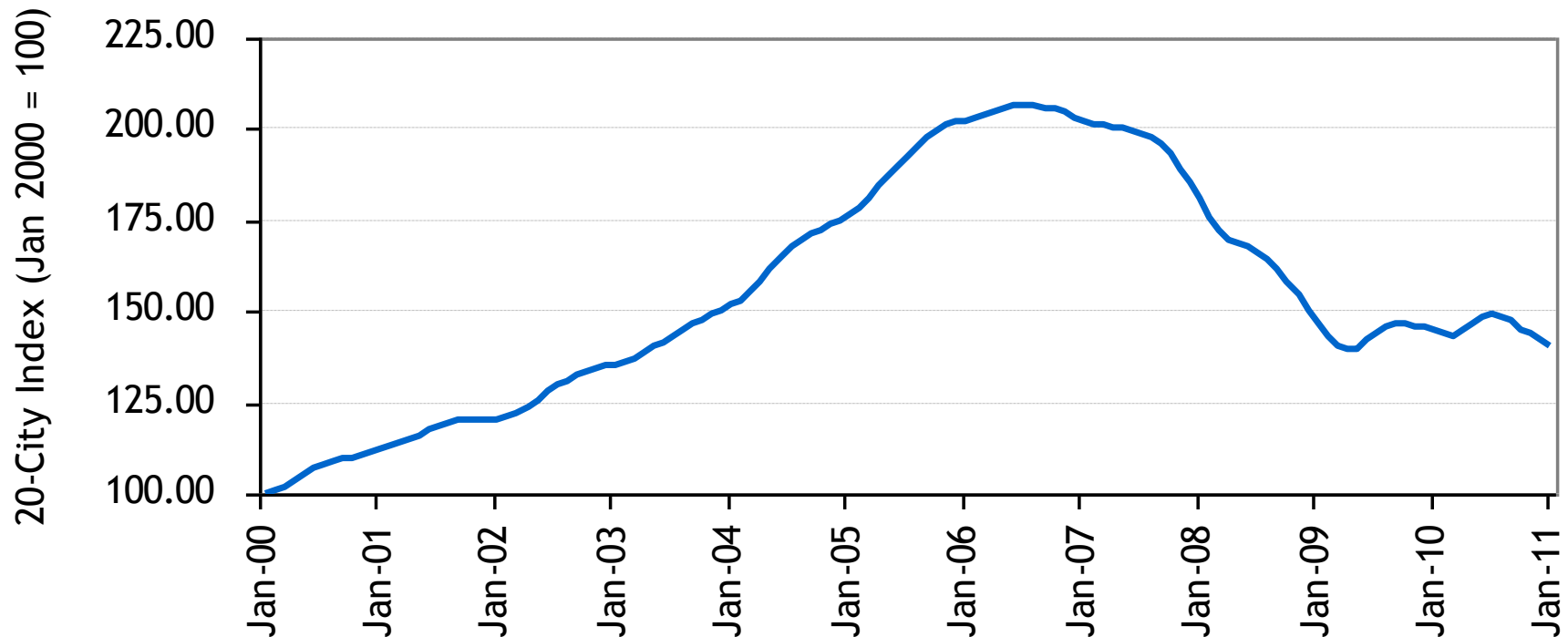


Source: WWPA, COFI, RBC Capital Markets estimates

The Decline in US Home Prices is the Single Biggest Hurdle to a Recovery

- Home prices have started to drop at a faster pace
 - FHFA index fell 1.6% m/m, after declining an average of 0.6% m/m for the three previous months
 - Case-Shiller 20-city index down for 8 straight m/m comparisons, 6 straight on y/y comparisons (C-S is a 3-month average)

Double Dip Likely for US Home Prices in 2011

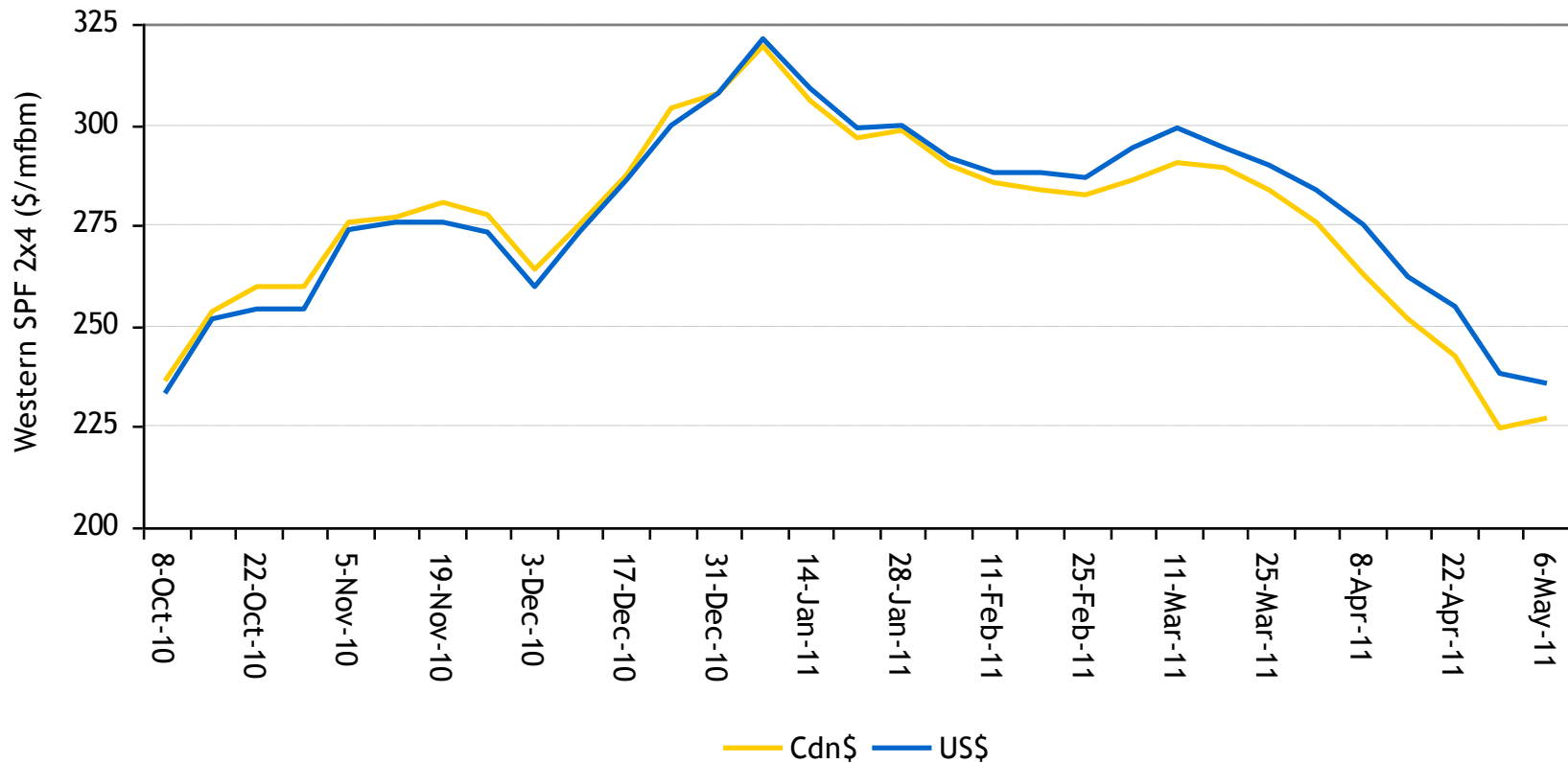


Source: Case-Shiller, RBC Capital Markets

The Lumber “Super Cycle” – Not Now, But When

- Strong Chinese demand has led many to start to believe that the US Housing market isn’t important, but it is!
- We consider C\$250/mfbm to be the break-even level for Average BC Interior Sawmillers.

Non-existent US Home Buying Season this Spring More that Offset Strong Asian Shipments

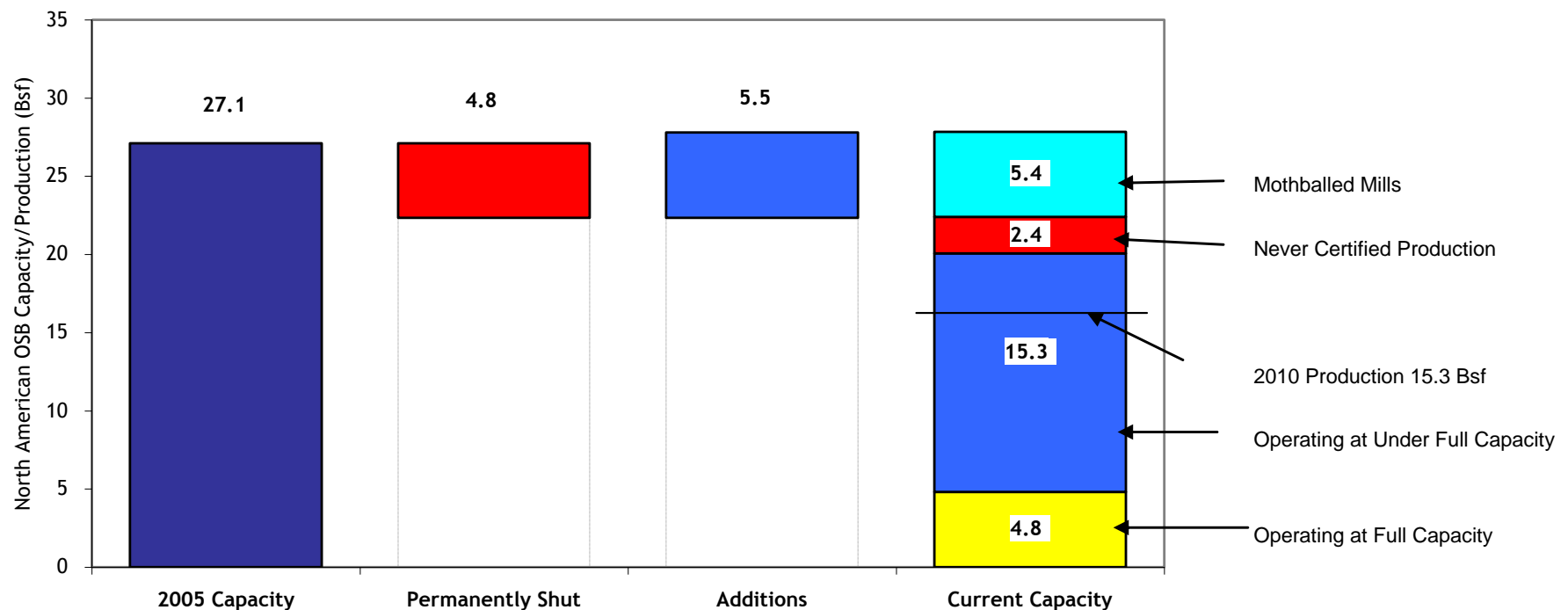


Source: Random Lengths, Pacific Fx Retrieval Service, RBC Capital Markets

OSB Capacity Overhang – Not As Big as it Appears

- All OSB producers are trading at significant discounts to replacement value (US\$325/msf), with Norbord's discount at 40%, LP's 36% and Ainsworth at 19%
- We consider US\$165/msf to be the break-even level for the North American Industry with current benchmark prices at US\$167/msf

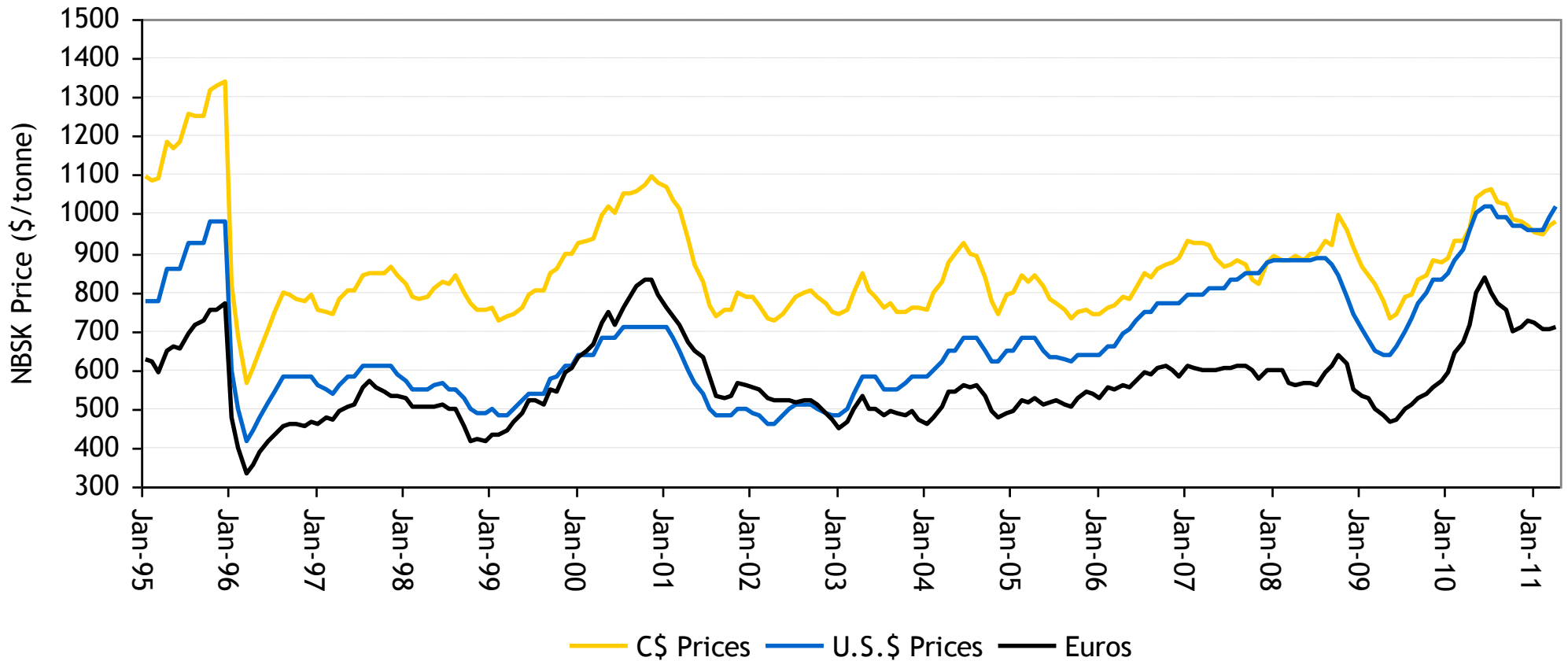
North American OSB Industry Operated at 55% in 2010



Source: APA, Company reports, RBC Capital Markets estimates

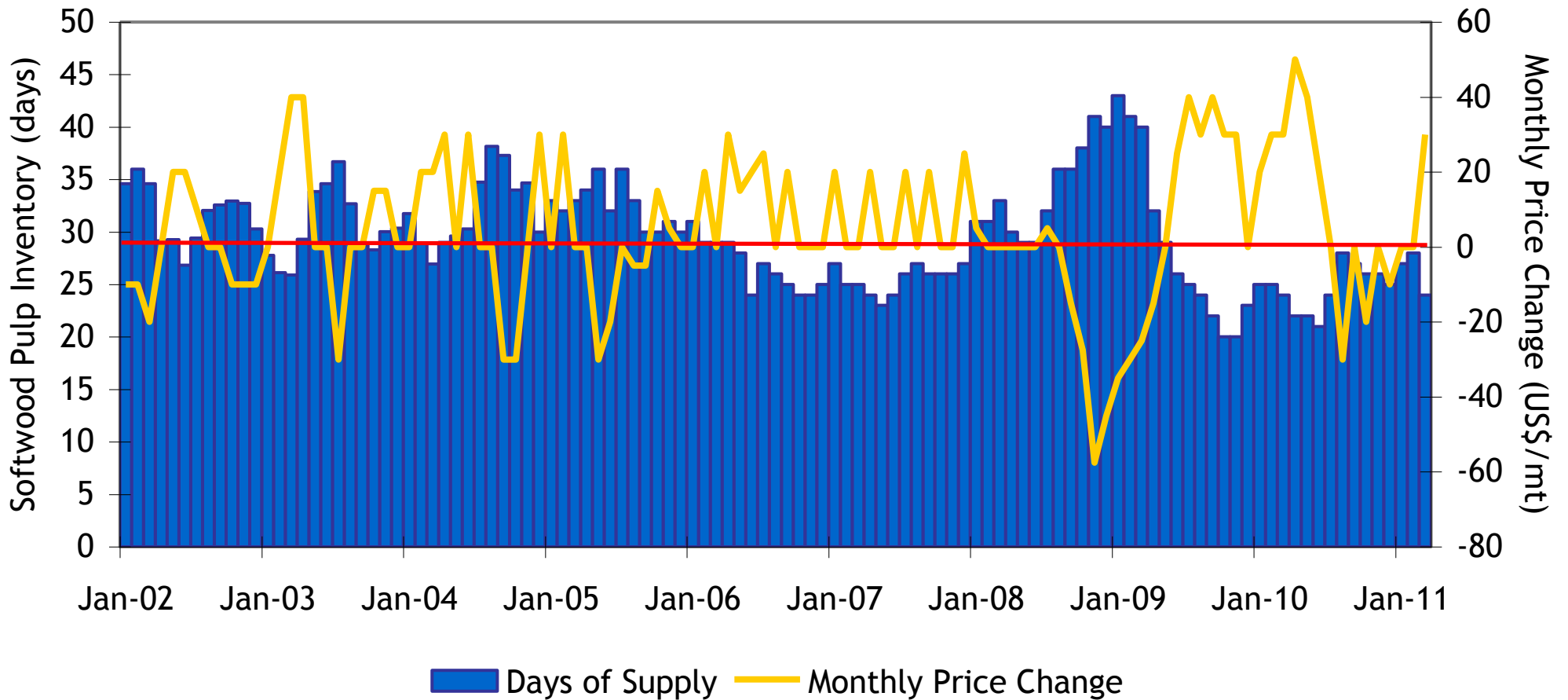
Softwood Pulp Prices will Soon Disconnect from Hardwood Pulp

NBSK Prices have Returned to Record Levels in US\$, But Not in Loonies or Euros



Source: Pulp & Paper Week, Pacific Fx Retrieval Service, RBC Capital Markets

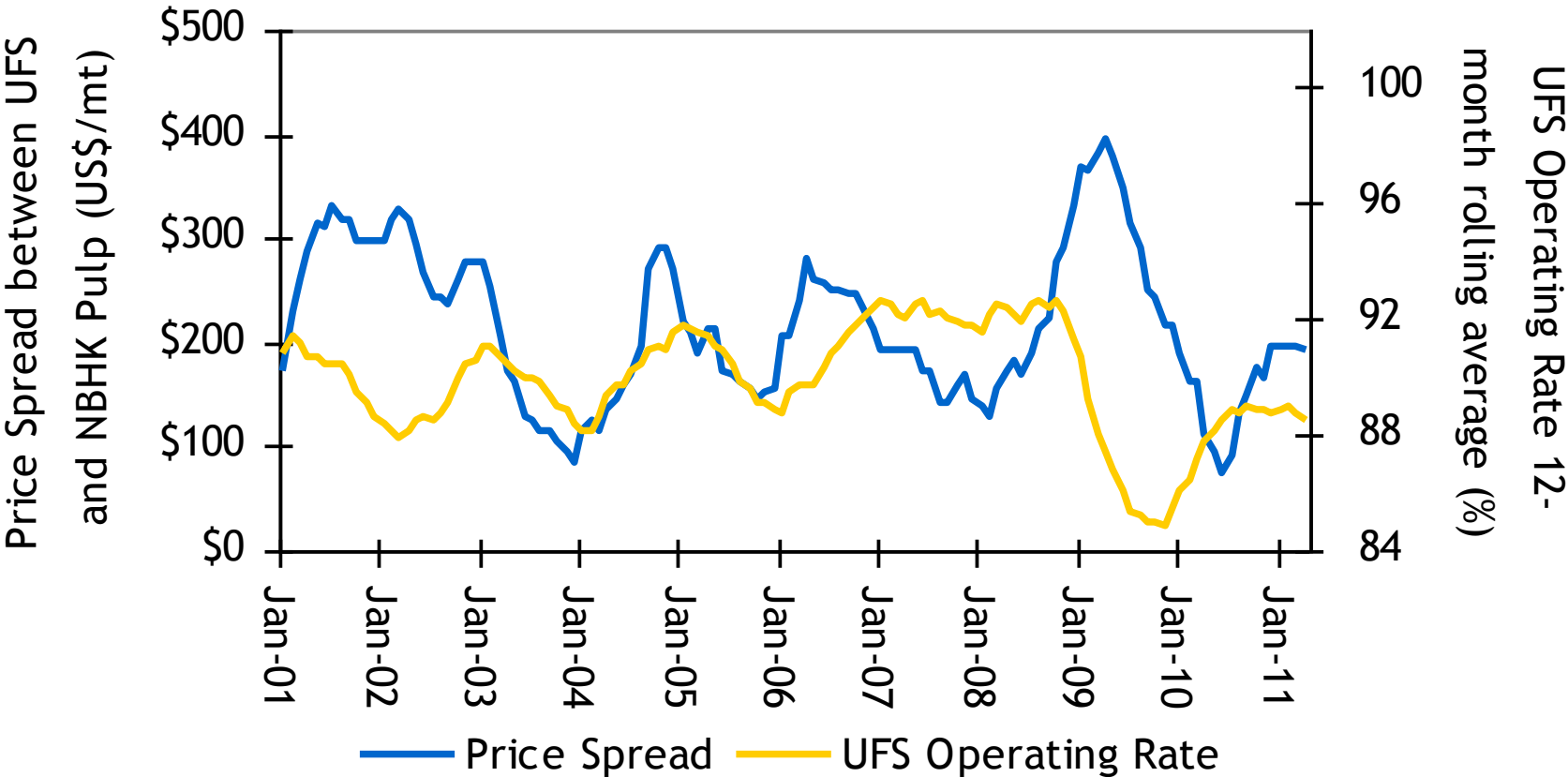
With World-20 Softwood Stocks at 24 Days of Supply, Prices will Keep Rising



Source: Pulp & Paper Products Council, Pulp & Paper Week, RBC Capital Markets estimates

Uncoated Freesheet Papers – Why this is a Great Business

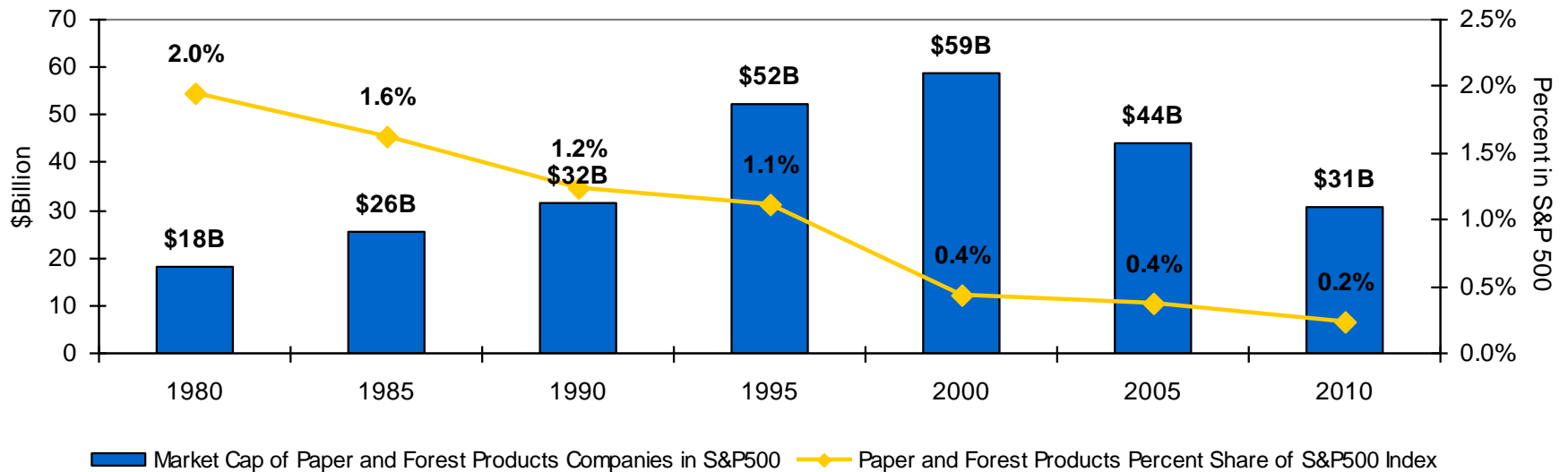
UFS/Pulp Disconnect and Stability of UFS Pricing



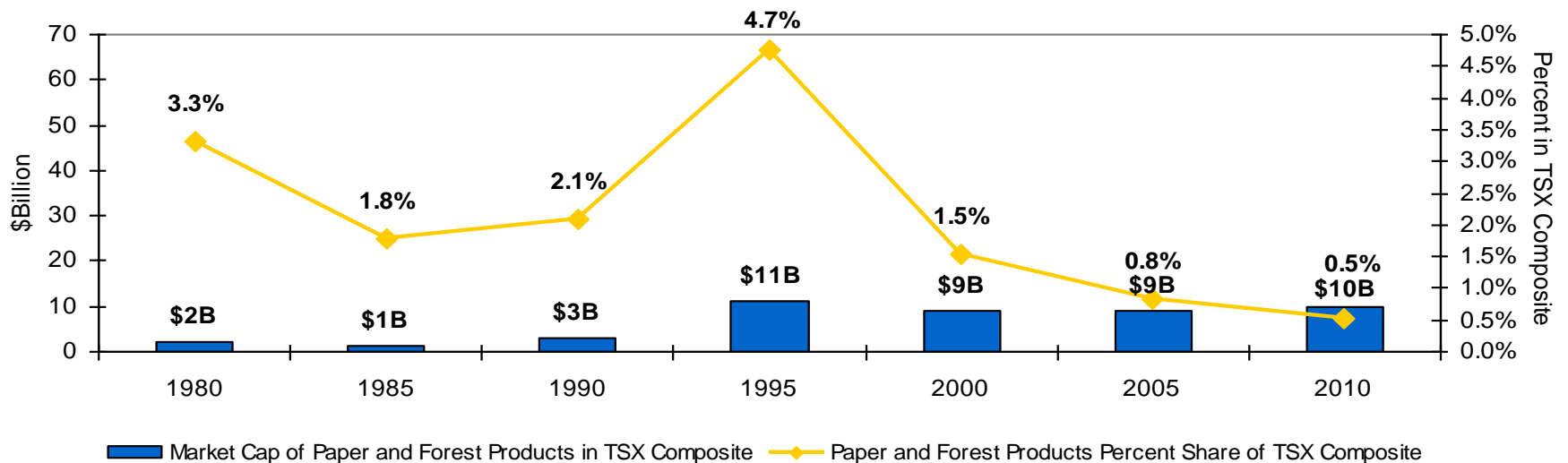
Source: Pulp & Paper Products Council, Pulp & Paper Week, RBC Capital Markets estimates

Is the Forest Products Sector Still Relevant in Global Capital Markets?

Declining Share of the S&P 500 Index Over the Last 30 Years



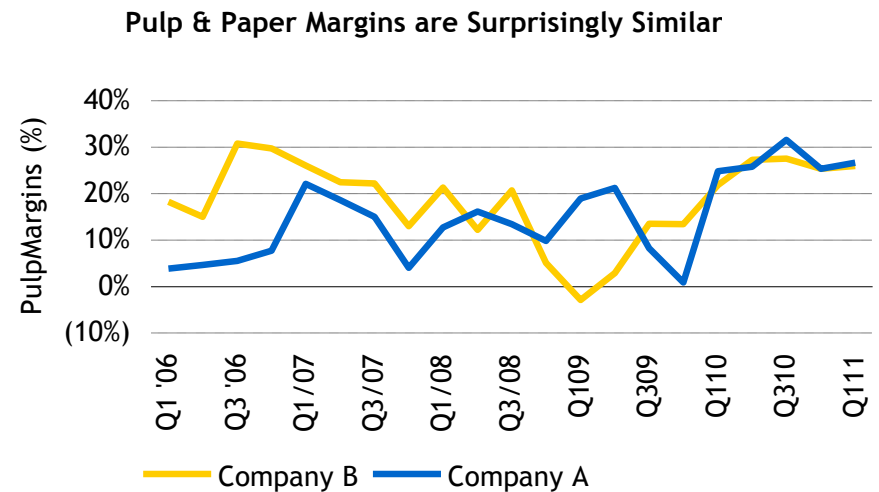
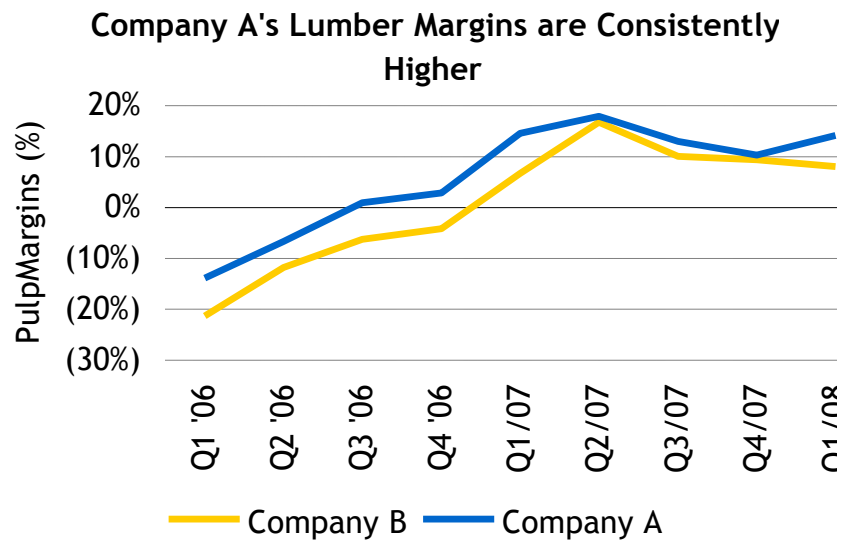
Paper and Forest Products Share of the TSX Composite Over the Last 30 Years



Source: Bloomberg, RBC Capital Markets

Who Has the Higher Valuation - Company A or Company B?

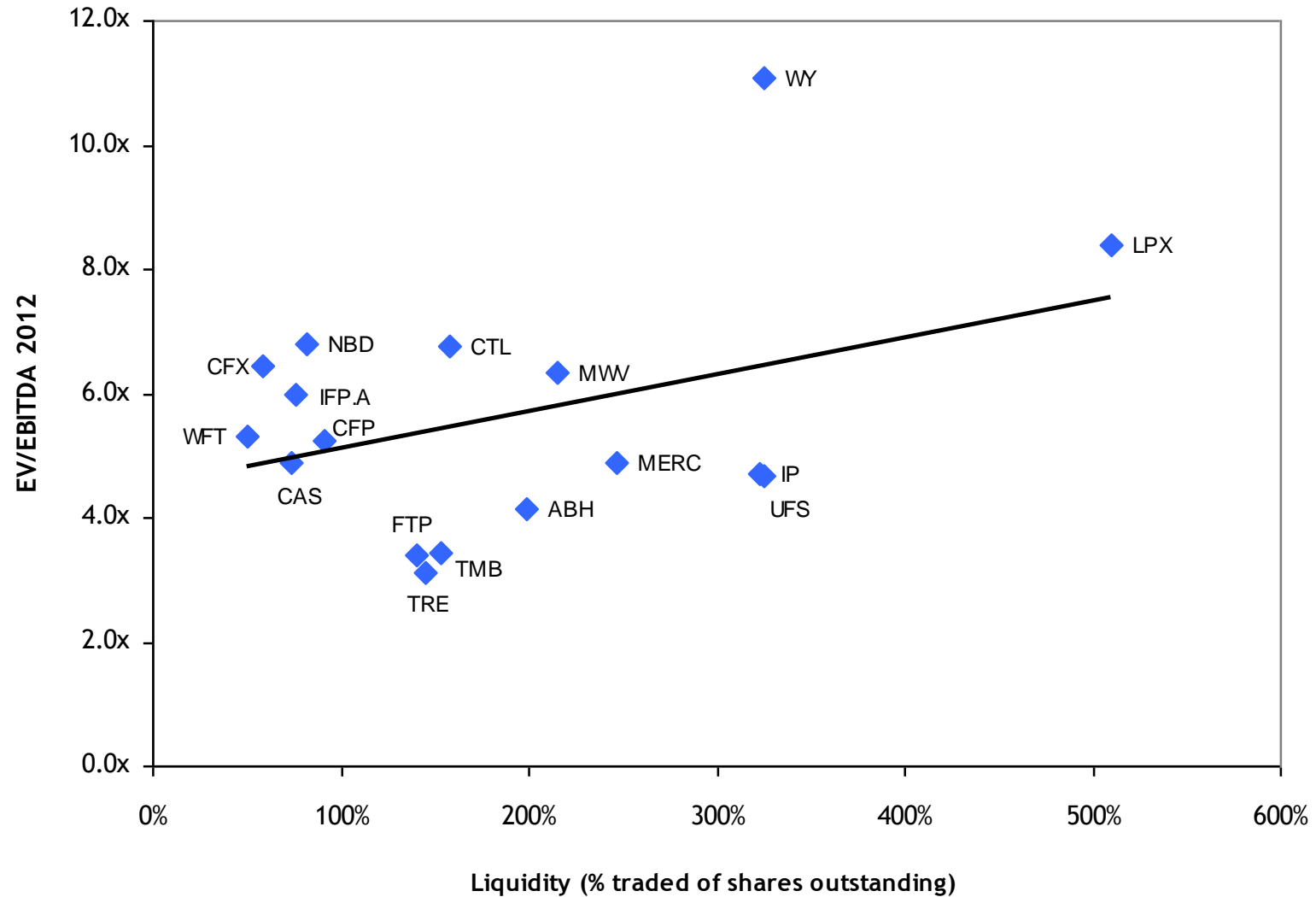
- Using consensus 2011 and 2012 EBITDA estimates, we note that both companies trade at multiples of 6.0x 2011 and 4.6x 2012.
- However, Company B only owns 50.2% of another firm which it consolidates into its results. So when you reduce EBITDA for the 49.8% that Company B doesn't own, the Company B-only multiples jump to 9.5x 2011 and 6.3x 2012.



Source: Company reports, RBC Capital Markets estimates

Liquidity Matters in Valuation...

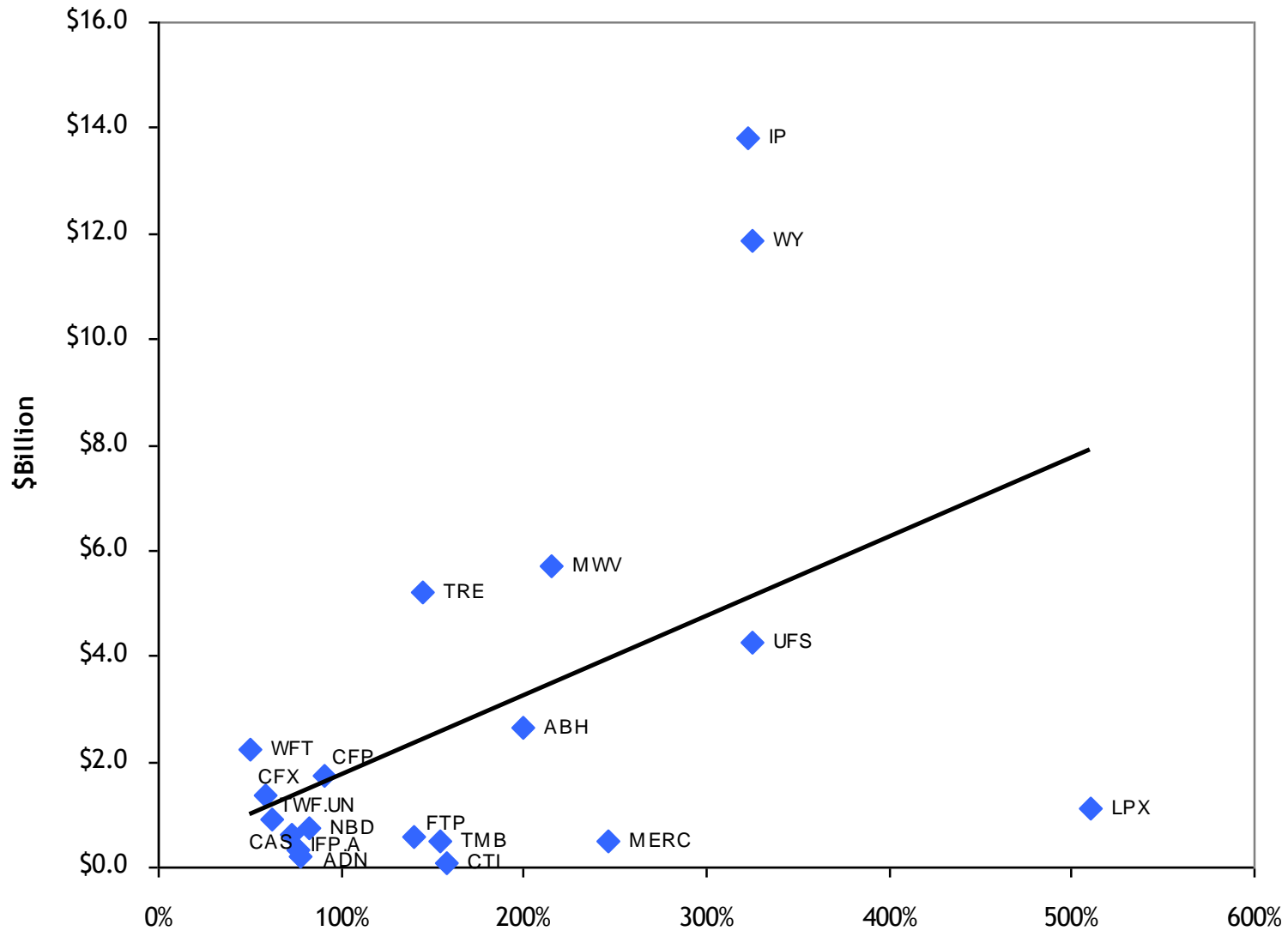
Valuation Multiple Increases with Liquidity



Source: Company reports, Thomson ONE, RBC Capital Markets estimates

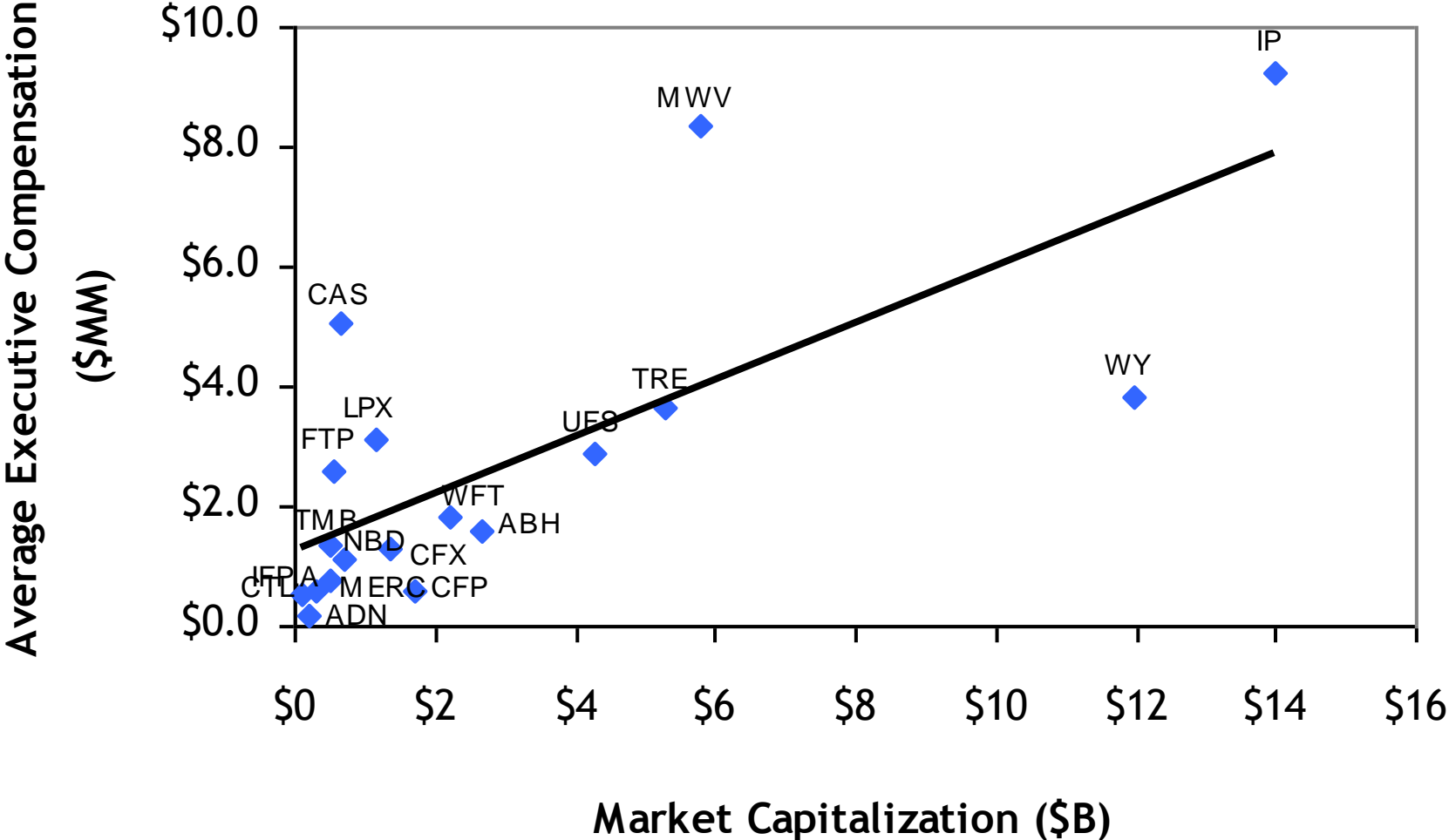
....So Does Size

Higher Market Cap Increases Liquidity



Source: Company reports, Thomson ONE, RBC Capital Markets estimates

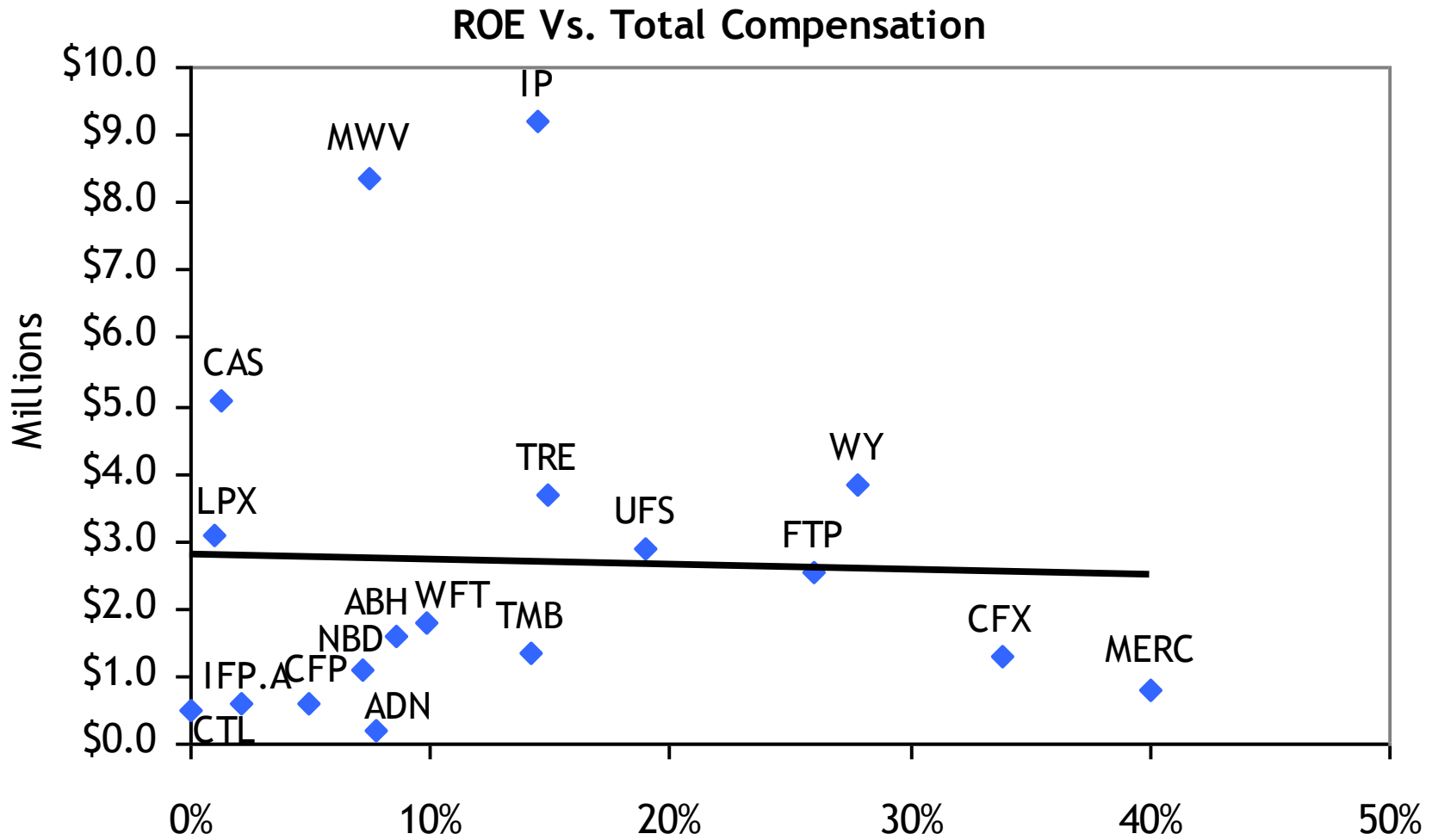
Executive Compensation is Clearly Linked to Market Capitalization



Source: U.S. Census Bureau, NAHB, NAR, MBA, Freddie Mac and RBC Capital Markets estimates



Performance vs. Executive Compensation



Source: Company reports, Thomson ONE, RBC Capital Markets estimates

How the Forest Products Sector Can Improve Access to Capital

1. Improved financial disclosure
2. Proactive marketing to the investment community
3. Supply Discipline – It works!
4. Merge, Acquire and Consolidate the Sub-sectors
 - Good – UFS, Tissue, OSB, Specialty Dissolving Pulp
 - Moderate – Containerboard, Groundwood Papers, Softwood Pulp
 - Poor – Hardwood Pulp, Lumber
5. Provide Quarterly Guidance and Sensitivities

“The pessimist is the man who believe things couldn’t possibly be worse, to which the optimist replies: ‘Oh yes they could’”

Vladimir Bukovsky
Russian writer and activist



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