



# Hilco™

## Valuation Services

### Paper Products Industry Perspective

1ST QUARTER 2014



#### INDUSTRY

#### INFORMATION

>> Total North American demand for printing and writing paper declined 1.6% in 2013 vs. 2012.

>> Newsprint exports account for approximately 45% of total North American production.

#### RECENT VALUATION/ LIQUIDATION EXPERIENCE

- NewPage Corp.
- Resolute Forest Products
- Verso Paper Corp.
- Catalyst Paper
- Unisource Worldwide, Inc.
- Global Tissue Group, Inc.
- Port Hawkesbury Paper
- Twin Rivers Paper Co.

## China's Impact on Paper

By Jesse Marzouk

The most significant news in the first quarter of 2013 in the North American paper market was the delay of the acquisition of NewPage Corp. by Verso Paper Corp. The proposed acquisition would have created a coated paper market giant with more than 50% of North American capacity and a consolidated industry where the top three producers controlled approximately 80% of capacity. The deal hit a blockade as some of Verso's bondholders objected to the deal as they were seeking a higher valuation for their bonds. A deal in the near future is still likely, however, as the industry sorely needs to consolidate and remove capacity. Recent prices for coated mechanical paper have fallen sharply and are approximately 5% below levels from a year ago.

With the current ongoing economic slowdown in China, Hilco will analyze China's impact on the North American paper market.

Unlike the other markets covered in these quarterly perspectives, China has a more muted impact upon the North

American graphic paper market. China is neither a large importer from North America nor a large exporter to North America of printing and writing paper or newsprint.

China's largest impact on the North American paper market comes from its significant purchases of market pulp and recycled fiber. This affects producers in a few ways. For large integrated producers of both paper and market pulp, China's demand for pulp helps drive prices higher and helps with overall profitability. For non-integrated companies that purchase either recycled fiber or pulp to produce paper or tissue products, China's appetite for these raw materials is a negative. China has significantly increased its purchases of both recycled fiber and market pulp over the last decade and has either helped maintain pricing (pulp) or driven prices much higher (recycled fiber).

The impact on the North American printing and writing paper market because of higher

pulp and recycled fiber prices is relatively muted because the overwhelming majority of producers manufacture their own pulp and are little exposed to price increases for pulp or recycled fiber. The impact upon the newsprint market is more significant as there are a large number of producers that manufacture newsprint from recycled fiber. The increase in recycled fiber prices has simply been another negative for newsprint producers, who are dealing with significant demand destruction in North America. China's impact on the market probably hits North American tissue manufacturers the hardest as a smaller percentage are fully integrated, meaning that they are large purchasers of market pulp. A lower level of demand by China for pulp would benefit tissue producers as input costs would decline. Meaningful costs savings could be achieved if Chinese demand declined at the same time as producers were bringing significantly more hardwood pulp capacity online in South America.

Jesse Marzouk is a vice president and forestry products specialist. He has appraised numerous U.S. and Canadian pulp, paper, and lumber-related companies involved in manufacturing and distribution. Jesse received his MBA in finance from Kellogg School of Management at Northwestern University, and has a degree in finance and accounting from Indiana University.



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