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Valuation Services

Paper Products Industry Perspective

2ND QUARTER 2014

INDUSTRY

INFORMATION

>> Total North American demand for printing and writing paper declined 3.0% for YTD May 2014 vs. 2013. Demand for coated mechanical paper fell 6.0% during the same period.

>> 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
- Veritiv Corp.
- Global Tissue Group, Inc.
- Port Hawkesbury Paper

Will Verso/NewPage merger occur?

By Jesse Marzouk

Amid continued weak demand for coated paper in North America, and even worse for the coated mechanical subsection of the market, Verso Paper Corp. is moving ahead with its planned acquisition of NewPage Corp. The proposed acquisition would create a coated paper market giant with more than 50% of North American capacity and a consolidated industry where the top three producers would control more than 75% of capacity. The deal hit a blockade earlier this year as some of Verso's bondholders objected to the deal as they were seeking a higher valuation for their bonds. As Verso attempts to move past the bond exchange offer issue, another hurdle may come from the Department of Justice (DOJ). Given the DOJ's recent decision to strike down the acquisition of Ainsworth Engineered by Louisiana Pacific (LP) in the oriented strand board (OSB) market, is a similar fate possible for the Verso/NewPage combination? The DOJ cited likely

price increases in the OSB market as a reason for its decision against the LP/Ainsworth deal. Coated paper price increases surely are quite possible following a combination of Verso and NewPage.

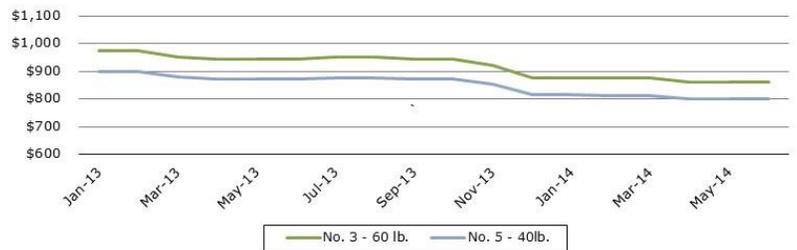
Based on the DOJ's recent decision an argument certainly can be made against the combination of Verso and Newpage. The LP/Ainsworth combined entity would have been the largest in the OSB market, but would have controlled only 32% of OSB capacity in North America. Furthermore, the industry still would have been much less concentrated, with more firms controlling idled capacity of OSB mills.

Arguments for the Verso/NewPage merger can also be

made because of the weak demand environment for coated paper, an argument that is more difficult to make about the OSB industry in a recovering, albeit slowly, housing market.

Whether or not the Verso and NewPage deal ultimately is approved, the coated paper market industry sorely needs to remove capacity. Prices for coated paper are down approximately \$100 per ton since the beginning of 2013 and it is estimated that on an overall basis, the coated mechanical prices are only 5% above cash costs on an industry-wide basis. Such levels can't be maintained, even in the intermediate term, without significant capacity reductions.

RISI Coated Paper Prices
18-Month Trend (US \$ Ton)



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.

