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Paper Products Industry Perspective

FOURTH QUARTER 2012

PRIMARY RECOVERY FACTORS

>> Total North American demand for printing and writing paper declined 7.0% year-over-year through October 2012.

>> Total North American demand for newsprint declined 0.4% year-over-year through October 2012. The declines were less than forecast as newsprint has taken share from uncoated mechanical.

RECENT APPRAISAL EXPERIENCE

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

NewPage emerges from bankruptcy

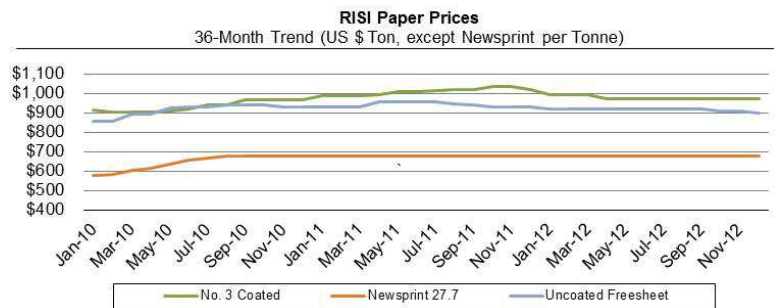
By Jesse Marzouk

Some prices of printing and writing (P&W) paper moved around in the fourth quarter of 2012. Prices of uncoated freesheet rolls declined approximately \$20 during the quarter, while coated mechanical paper prices increased approximately \$20 to \$25 per ton. Prices for other grades, including coated freesheet and uncoated mechanical held steady throughout the quarter.

Prices for coated mechanical paper increased as producers reduced capacity from the system, resulting in an operating rate at or above 100% of stated capacity during the final few months of 2012. The capacity cuts came from Resolute Forest Products, which shut down one of its three lines at its Catawba, South Carolina mill, and Verso Paper, which decided not to reopen its Sartell, Minnesota mill after a fire caused significant damage.

Going forward, prices in the coated paper market, for both coated mechanical and coated freesheet will depend on the rate of demand decline from catalog and magazine publishers, the rate at which supercalendered (SC) paper steals market share from

did the opposite. The better than expected demand from catalogs helped drive the price increase on coated mechanical grades in the fourth quarter. With regards to SC paper, it will be interesting to see if the speculation surrounding a switch from LWC to SC paper



lightweight coated (LWC) mechanical paper, as well as any future capacity cuts from coated producers.

Regarding magazine and catalog demand, 2012 was a surprise on both fronts, although in different directions. Demand from magazines surprised to the downside, while demand from catalogs

actually occurs now that Port Hawkesbury Paper has restarted and is producing high quality SC paper. Lastly, as has been the case for the better part of the last five years, further capacity cuts in the industry will also be important if producers hope to maintain and/or raise prices in the future.

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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