



Hilco Appraisal Services, LLC

Pulp Industry Perspective

FOURTH QUARTER 2012

PRIMARY RECOVERY FACTORS

>> Prices for different grades of pulp can diverge based on small changes to furnish percentages by major world consumers of pulp.

>> Capacity increases in eucalyptus hardwood pulp from South American producers may total 3 to 5 million tonnes between 2012 and 2016

RECENT APPRAISAL EXPERIENCE

Tembec Inc.

Neucel Specialty Cellulose

Cosmo Specialty Fibers Inc.

Resolute Forest Products Inc.

Pulp Prices Increase in Q4

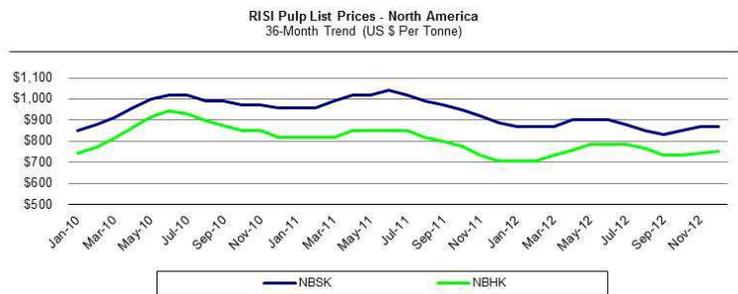
By Jesse Marzouk

North American pulp prices rebounded in the fourth quarter after a significant decline in the third quarter. NBSK list prices in the U.S. increased \$40 per tonne from \$830 to \$870. Prices for NBHK in the U.S. also increased, rising \$20 per tonne to \$735. Furthermore, price hikes of approximately \$20 or \$30 on softwood grades have already been announced in the U.S. and Europe for January 2013.

One area that Hilco does not typically focus on in its quarterly forestry perspectives is the dissolving pulp market. The main reason is its relatively small size (approximately 10% of the size of paper grades combined).

Dissolving pulp is used for two primary purposes; as a fiber source for rayon (viscose) and as the base product used to make cigarette filters (acetate).

The viscose pulp market is the larger market and is consid-



ered more of a "commodity." Prices tend to fluctuate significantly, including large fluctuations in 2011 and 2012. Viscose often competes with cotton linter pulp and after cotton prices rose significantly in 2011, viscose pulp prices more than doubled in a six month period to near \$2,500 per tonne. As cotton prices crashed in the second half of 2011 and into 2012, and producers increased capacity of viscose pulp, prices cratered to around \$900 per tonne in recent months. While demand still remains strong for viscose pulp, the capacity increases have overwhelmed the market as

producers tried to take advantage of higher prices. Prices may have reached lows recently, however, and have shown signs of stabilization.

The acetate market has steadier pricing and has been a huge winner over the last five years, where pricing has increased from \$1,400 per tonne to \$1,900 per tonne. Acetate grades are much harder to produce, allowing producers to gain pricing power as it is difficult to transition a mill to produce it. Going into 2013, it appears that the acetate market will remain strong with pricing holding high.

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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