



Paper



# Pulp and Paper Products



Corrugated packaging's versatility makes it perfect for nearly every packaging application.



# Topics

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- Industry Analysis
- Weyerhaeuser Analysis
- Economic Environment
- Recommendations
- Macro Impact

# Objective

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- Present the relevance of the forest and paper products industry to the US economy.
- Propose a shift and change in strategy for companies in the Forest and Paper industry due to the changing economic condition

# Forestry and Paper Products Industry

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- Wood Products – 45% of Industry
- Printing and writing paper
- Boxboard
- Containerboard
- Tissue
- Newsprint
- Real Estate
- Recycling

# Top 10 Industry Firms

Rank	Company	Country	2006 Net Sales (MM)	2006 Net Income (Loss) (US\$M)
<b>1</b>	<b>International Paper</b>	<b>US</b>	<b>24,976</b>	<b>(880)</b>
<b>2</b>	<b>Koch Industries-GP</b>	<b>US</b>	<b>23,271</b>	<b>(735)</b>
<b>3</b>	<b>Weyerhaeuser</b>	<b>US</b>	<b>16,771</b>	<b>16</b>
<b>4</b>	<b>Kimberly-Clark</b>	<b>US</b>	<b>13,566</b>	<b>1,1675</b>
5	Stora Enso	Finland	12,090	(211)
6	Procter & Gamble	US	11,877	954
7	UPM-Kymmene	Finland	9,907	520
8	Nippon Unipac	Japan	9,696	(5)
9	Oil Paper	Japan	9,635	(142)
10/24/2007	SCA	Sweden	9,091	588

# Forest and Paper Industry in US Economy

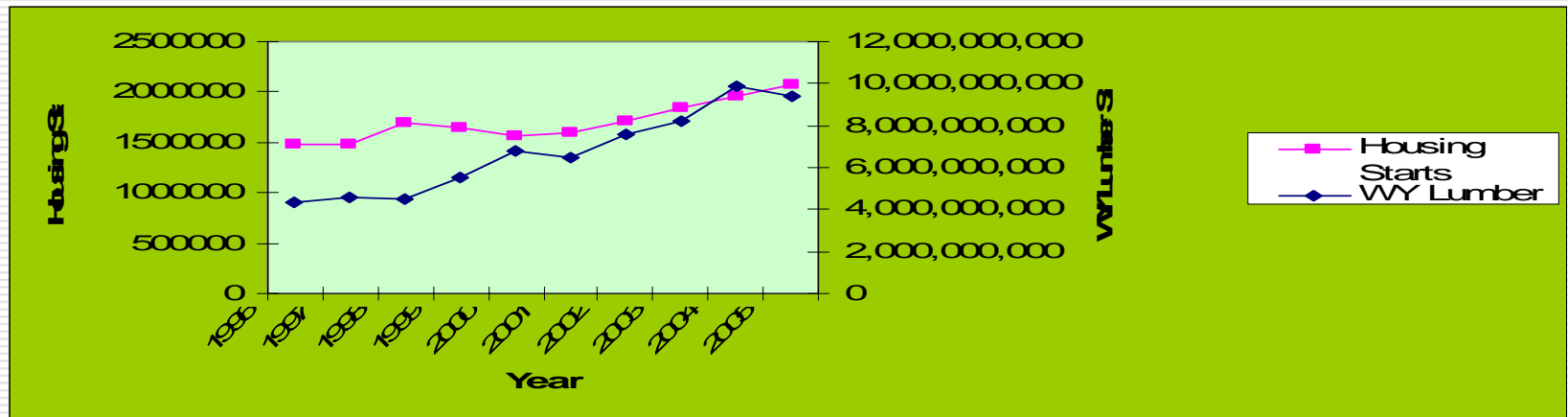
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- ❑ The entire Industry does \$260B in sales
- ❑ The entire industry employs approximately 1 million workers
- ❑ North America accounts for more than 25% of Worldwide Market Share
- ❑ Industry Represents 1.96% of US GDP

# Demand Factors for Forest and Paper Products

## □ Housing Starts

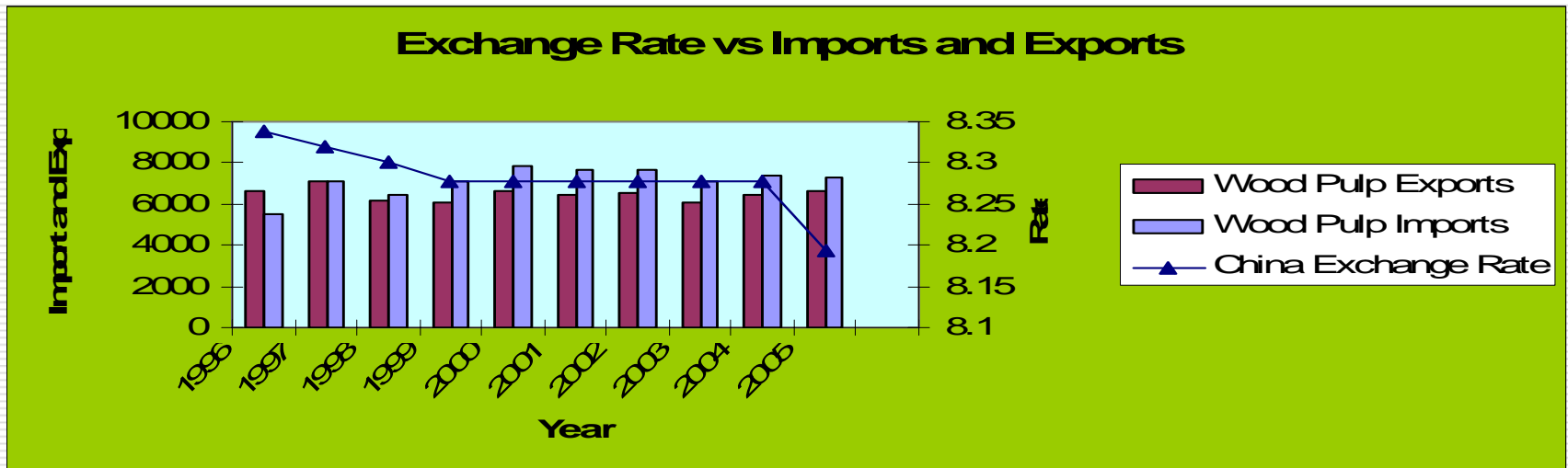
- Direct Correlation to Demand for Wood Products segment in Forestry and Paper Products
- Also effected by Interest Rates as a lagged negative correlation



# Demand Factors for Forest and Paper Products

## Exchange Rates- International Trade

- Value of Dollar directly impacts the price of lumber and raw materials. Imports rise as the dollar value increases
- China is largest trading partner for wood products



# Demand Factors for Forest and Paper Products

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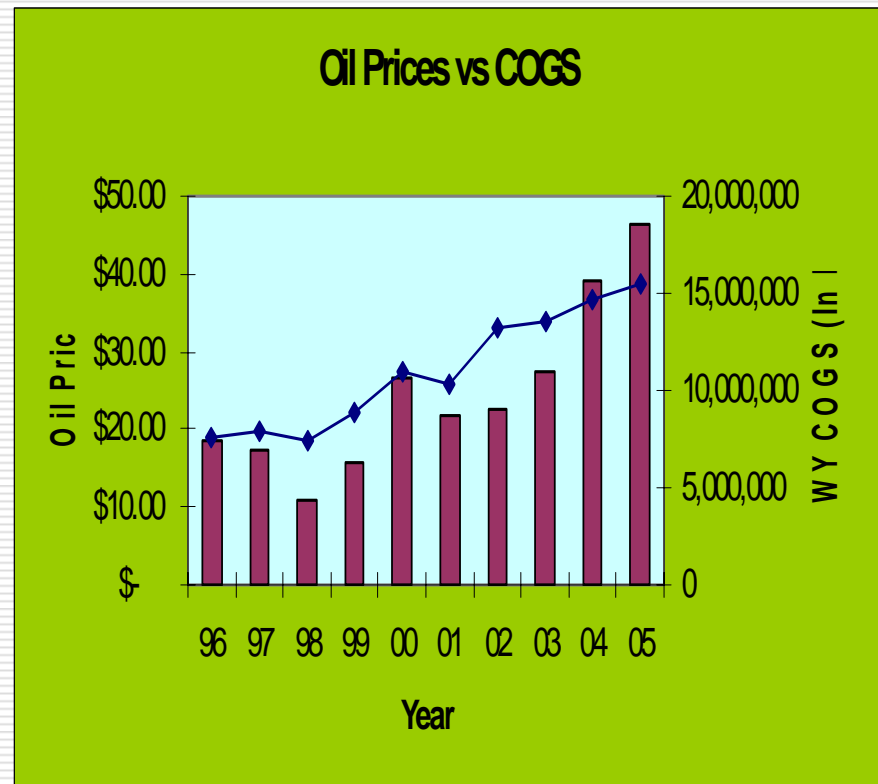
## Increasing Level of Substitutes

- Lumber Demand is being addressed by alternate materials
- Paper demand is decreasing as electronic means take hold and shrinking need for newsprint as newspapers lose readers



# Forest and Paper Industry Costs and Production Issues

- **Energy Prices**
  - Approximately 10% of all companies costs
  - Companies generally cannot increase prices relative to change in energy costs because products are commodities
- **Industry Operating Efficiency**
  - Generally running 98% capacity
- **Raw Materials Costs**
  - Trees, Solvents, Harvesting
- **Capital Outlays for Mills**
  - Lumber and Paper Mills are capital intensive to build and may become unneeded if supply increases and/or demand lowers



# Industry Non Economic Factors

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- Government and Environmental Regulations
  - Ecological and animal habitat regulations have hindered ability to utilize timberlands
  - Environmental impacts of plants

- Natural Disasters

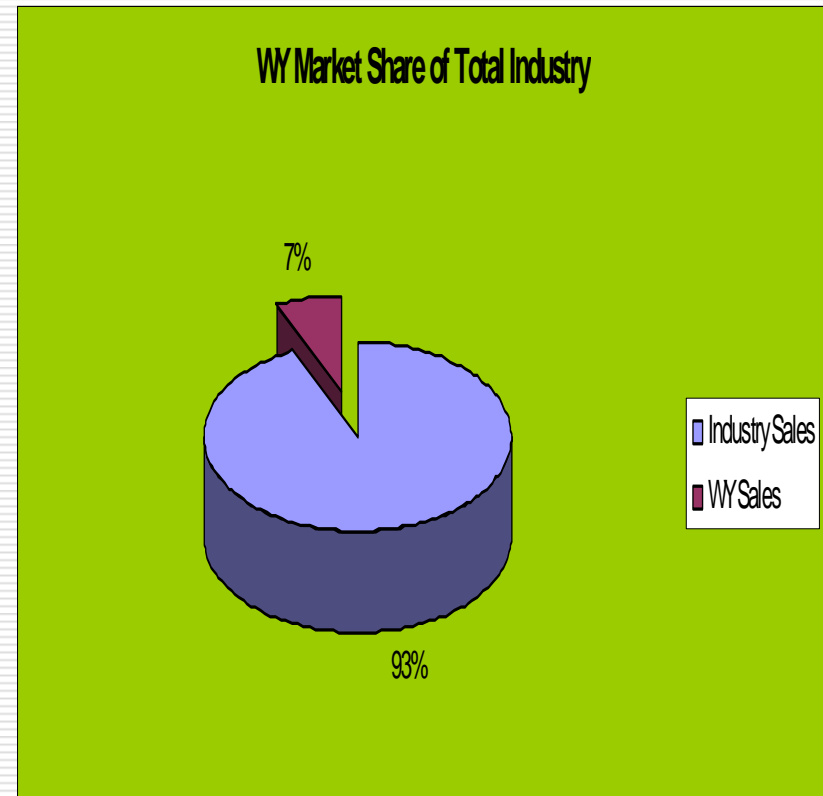
- Hurricanes
- Forest Fires



# Weyerhaeuser Introduction

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- ❑ US Based Company
- ❑ \$22.629 Billion in Sales
- ❑ \$733 Million in Net Income
- ❑ 49,900 Employees
- ❑ #3 in Industry Market Share
- ❑ #2 in Wood Products



# Market Power

- ❑ Weyerhaeuser is the 2<sup>nd</sup> largest North American Company in the Forest and Paper Industry with revenues of \$22.629B in 2005.
- ❑ They currently have a pending purchase of Domtar Inc which will give WY more Canadian assets

## **LARGEST US PAPER AND FOREST PRODUCTS COMPANIES — 2005** *(Ranked by revenues)*

COMPANY	REVENUES* (MIL. \$)
International Paper	24,097
Weyerhaeuser	22,629
Smurfit-Stone Container	8,396
MeadWestvaco	6,170
Temple-Inland	4,888
Bowater	3,484
Louisiana-Pacific	2,599
Greif Brothers	2,424
Packaging Corp. of America	1,994
Plum Creek	1,576

\*Includes revenues from operations other than paper and forest products in certain cases.

Source: Company reports.

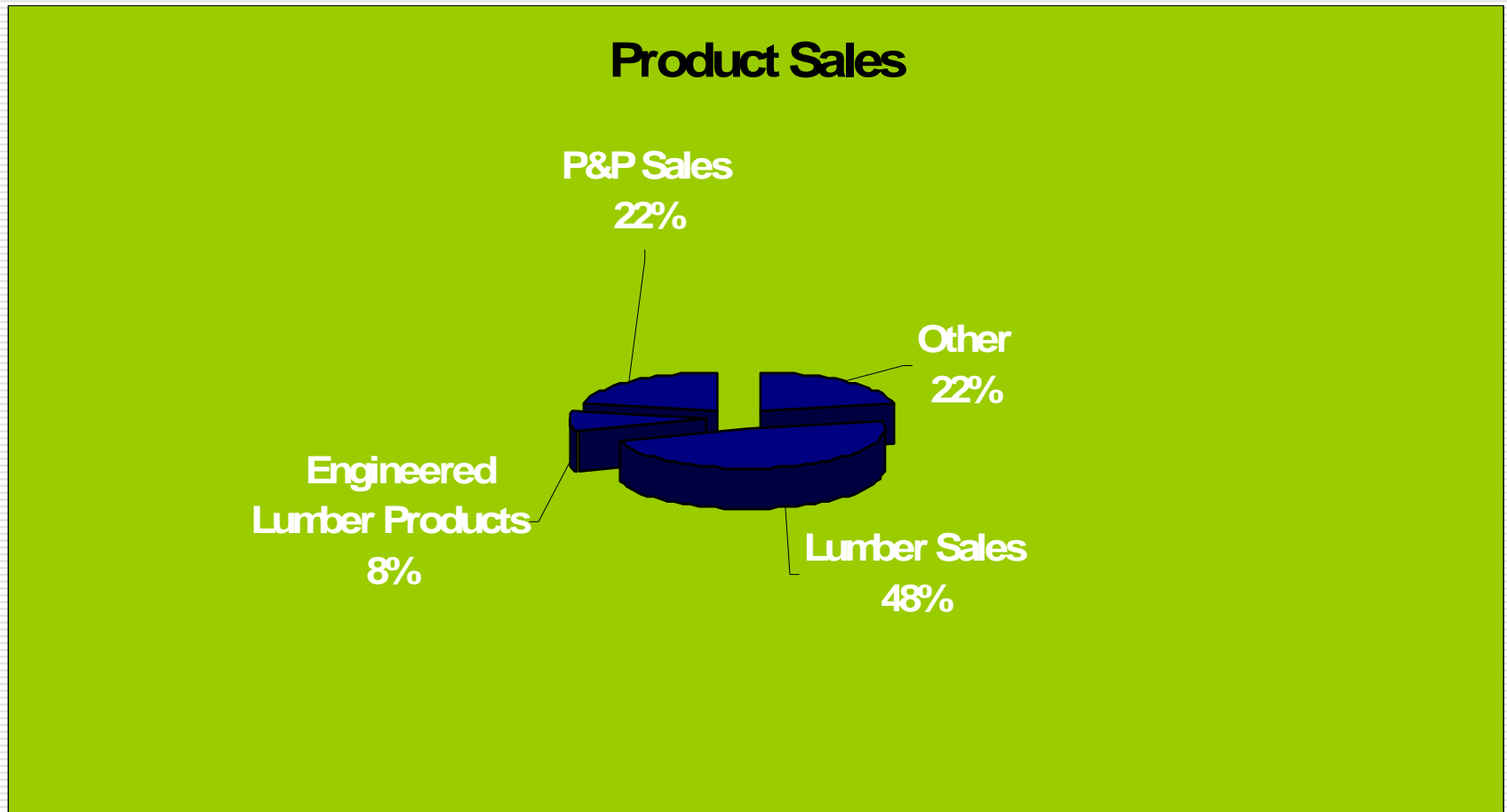
# Weyerhaeuser Financial Performance

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Year	Income Statement			Employees
	Revenue (\$ mil.)	Net Income (\$ mil.)	Net Profit Margin	
Dec 2005	22,629.0	733.0	3.2%	49,900
Dec 2004	22,665.0	1,283.0	5.7%	53,646
Dec 2003	19,873.0	277.0	1.4%	55,162
Dec 2002	18,521.0	241.0	1.3%	56,787
Dec 2001	14,545.0	354.0	2.4%	44,843
Dec 2000	15,980.0	840.0	5.3%	47,200
Dec 1999	12,262.0	527.0	4.3%	44,770
Dec 1998	10,766.0	294.0	2.7%	35,000

# Weyerhaeuser Business Units

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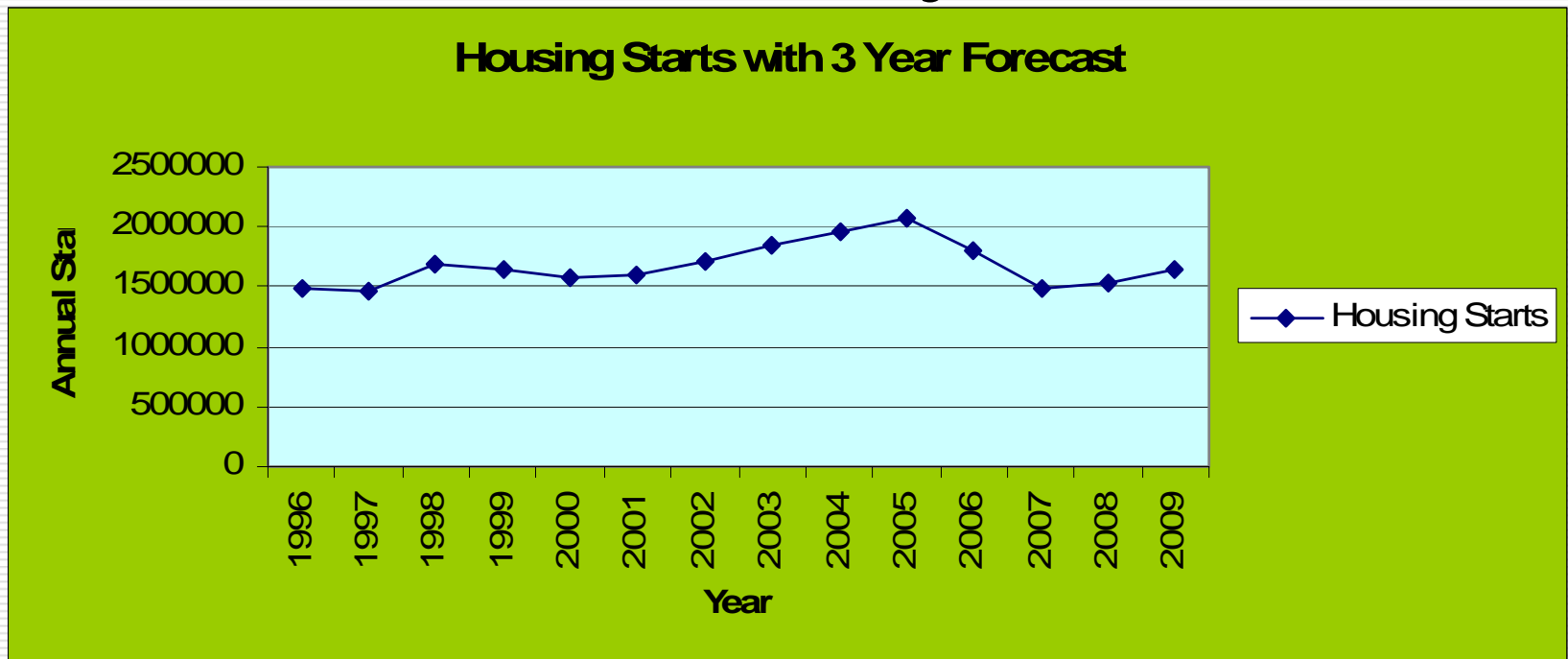
# Weyerhaeuser Strategies and Goals 2007

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- ❑ Maintain focus on reduction in costs of production
- ❑ Selective market expansion
- ❑ Fund selective growth opportunities
- ❑ Continue capital spending discipline
- ❑ South American growth

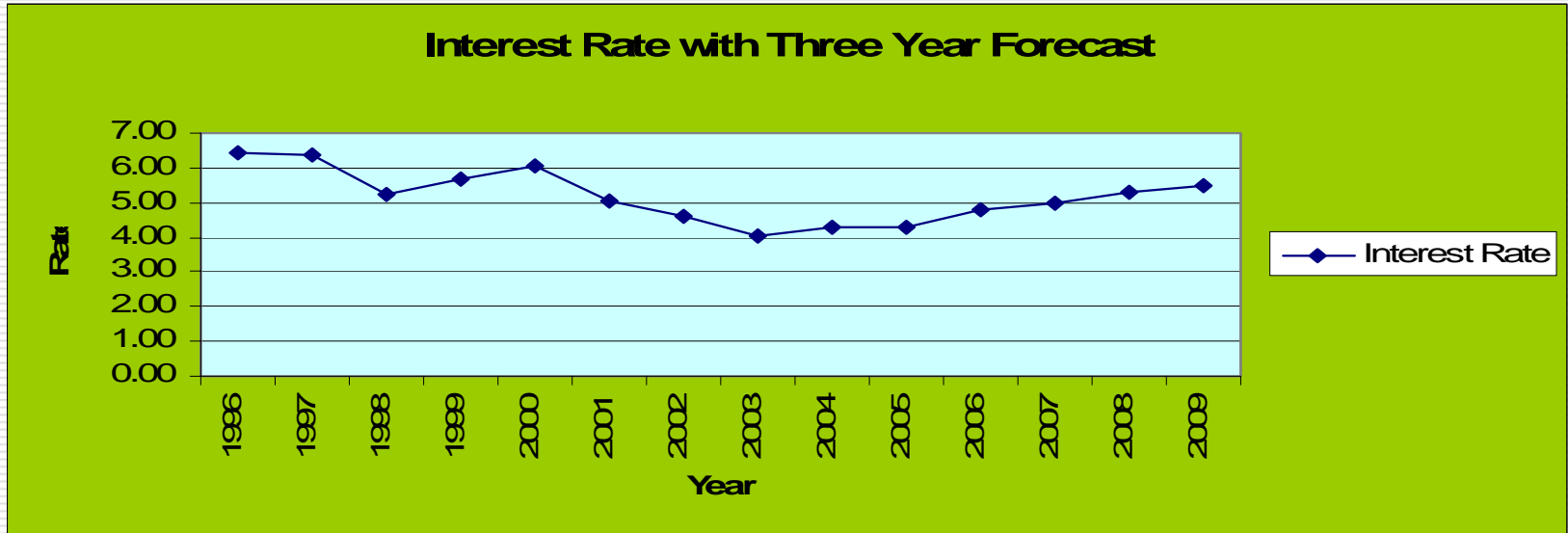
# Economic Environment- Future

- **Housing Starts-** Expected to see slight declines and then stability over next three



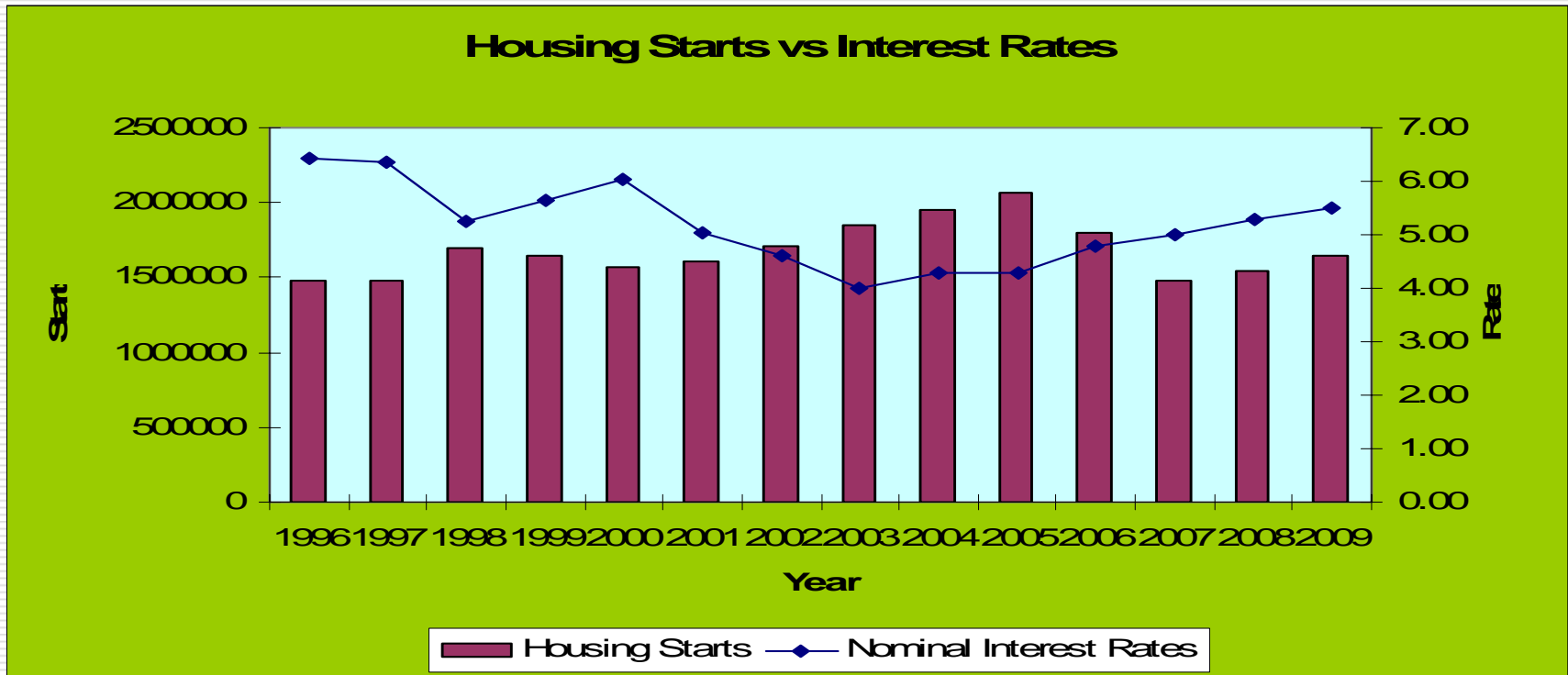
# Economic Environment- Future

- **Interest Rate-** will remain constant based on pull back of investment in housing market and strong potential Fed activity



# Economic Environment- Future

- Correlation of Interest Rates and Housing Starts



# Economic Environment- Future

- **Energy Prices-** will remain stable over next three years pending no significant impact on supply



# Economic Environment- Future

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- **Exchange Rate-** current trend is indicating a stronger US dollar to most currencies. Also import increases indicate the position for a stronger US Dollar

# Weyerhaeuser Forecasts

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- ❑ Demand for lumber will fall due to decrease in housing starts which started 4Q of 2006 which = lower sales
- ❑ Energy price stability will not allow for reduced costs of production
- ❑ Due to decrease in demand and stable energy prices WY's profits will decrease
- ❑ Interest Rate stability will no fuel a surge in housing starts

# Weyerhaeuser

## Recommendations

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- Maintain operating capacity at 97% or above
- Increased expansion into Asian markets-  
China
  - Take advantage of stronger dollar
  - China Demand for Wood and Paper  
Product has tripled- including newsprint
- Continued divesting of timberline assets
- Move focus out of Real Estate Business  
Sector

# Weyerhaeuser

## Recommendations

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- Focus on Substitute and Compliment Products to capitalize on demand and lower production costs
  - Higher Demand and lower production cost in Raw Materials and Energy for Engineered Wood Products
  - Eucalyptus Pulp available to harvest year round and primarily based in Asia
  - Products are not as elastic as current portfolio

# Weyerhaeuser

## Recommendations

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- Expand and utilize transportation business
  - Make more vertical supply chain to Asia expansion and streamline cost structure
  - Utilize to take advantage of risk and changes in exchange rates along with import and export fluctuations
- Weyerhaeuser can hedge against potential interest rate fluctuations by managing a portfolio of variable and fixed rate debt composed of short and long term instruments. This will help balance the Corporation's cost of financing with its interest rate risk.

# Thank You

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## QUESTIONS