

Containerboard Market Overview

FBA / AICC Meeting

San Diego, California

**Mark Wilde, Managing Director
Deutsche Bank Securities**

April 15, 2010



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Deutsche Bank



Mark.Wilde@db.com, Deutsche Bank Securities, April 2010

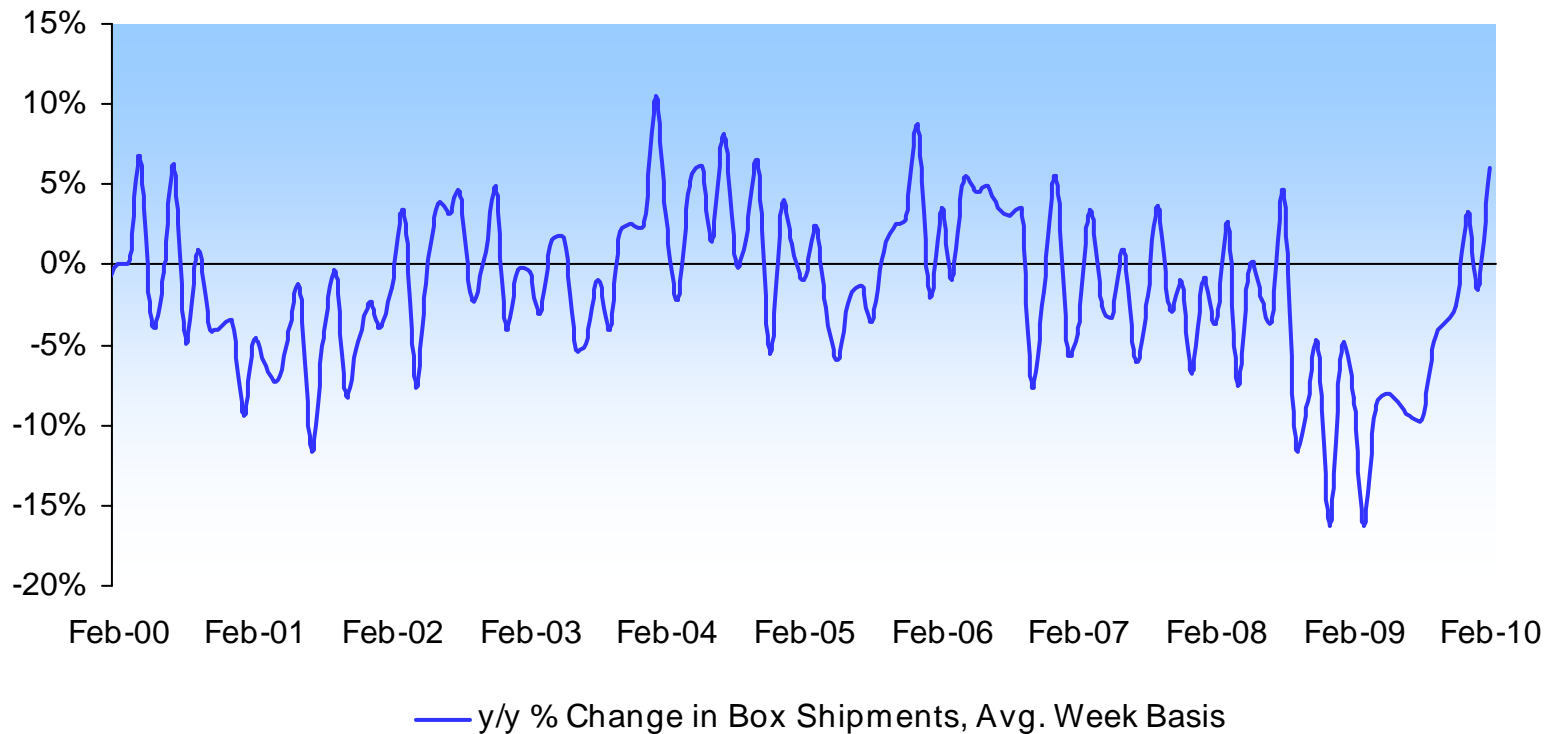
Today's Agenda

1	Review of Recent Market Trends
2	Key Industry Developments
3	Issues Ahead For The Sector?
4	Has The Sector Been Re-Rated?



Review of Recent Market Trends

Box Demand Has Started To Show Signs of Improvement



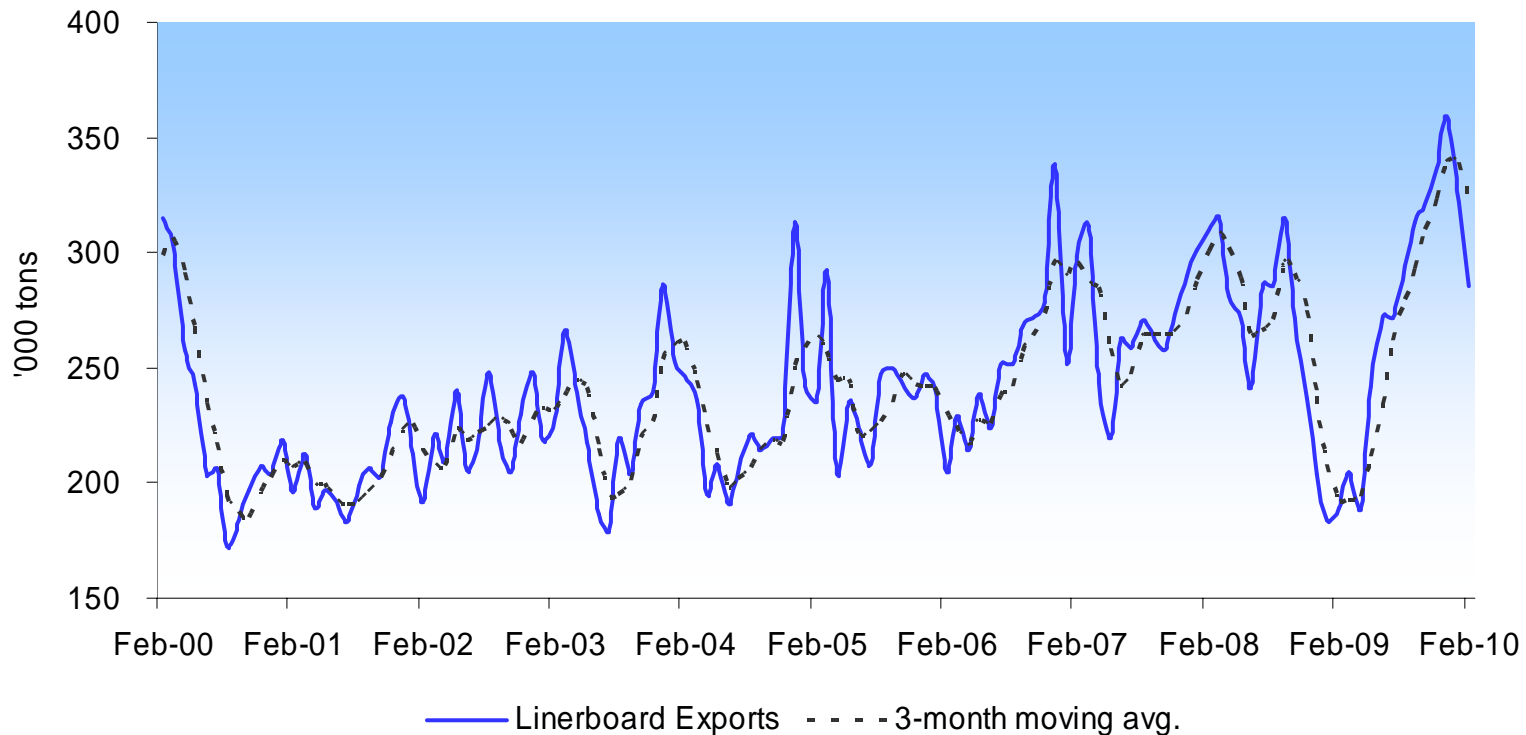
However, Volume Levels Remain Well Below 2008

Source: Fibre Box Association



Review of Recent Market Trends

US Linerboard Exports



Recent Export Volumes Constrained By Supply Limitations?

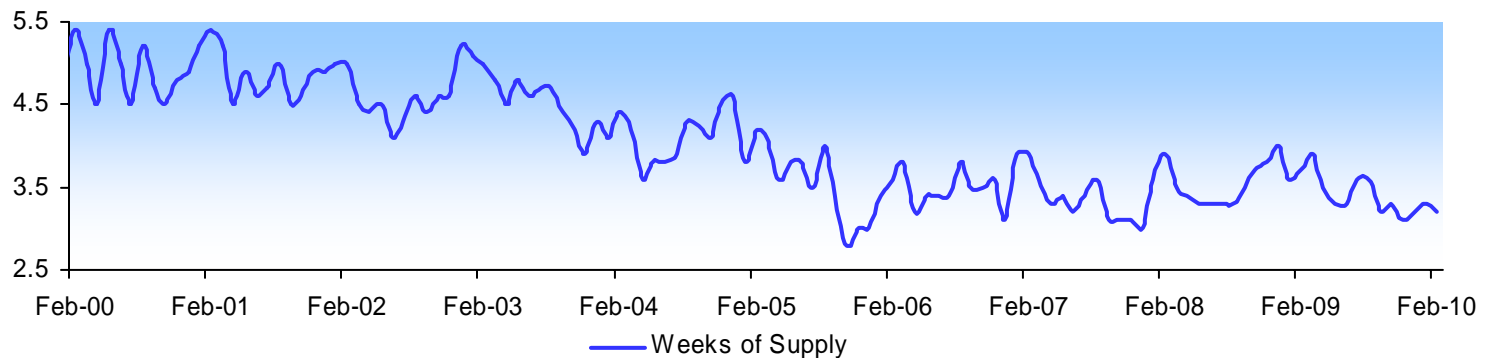
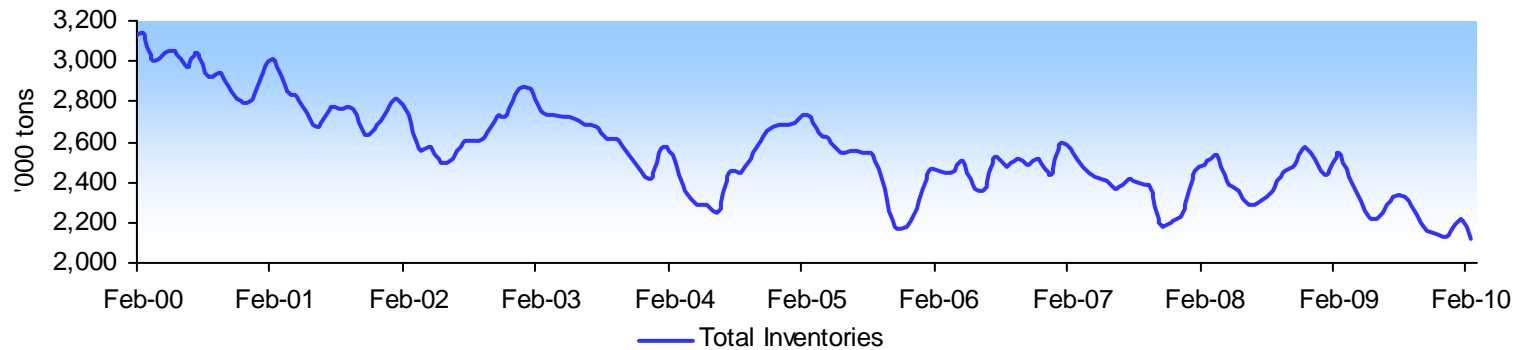
Export & Offshore Prices Are Rising Rapidly

Source: AF&PA



Review of Recent Market Trends

Inventories Are Quite Lean



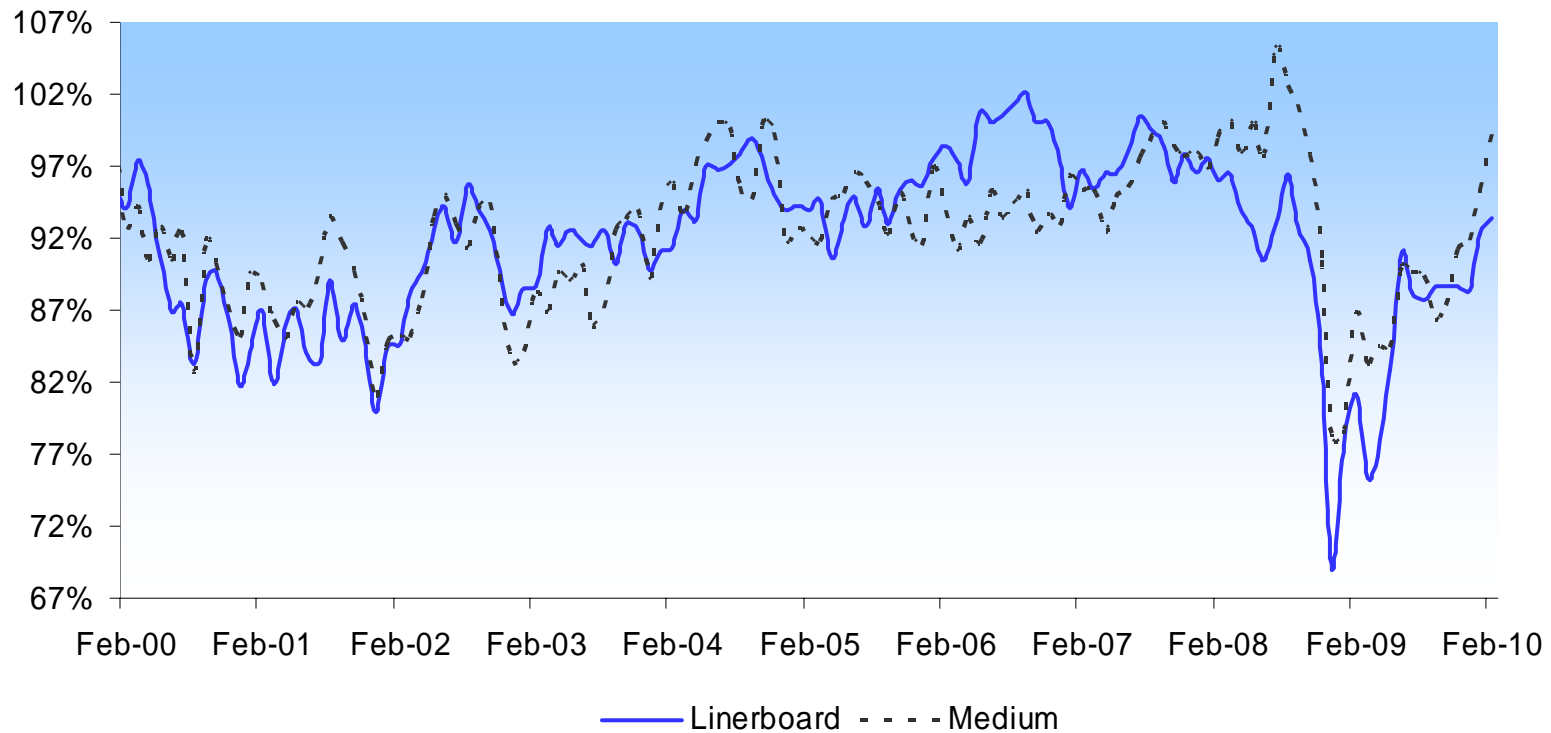
Spring Maintenance Schedules Apt to Keep Pressure on Inventories

Source: AF&PA, Fibre Box Association



Review of Recent Market Trends

Operating Rates Have Rebounded

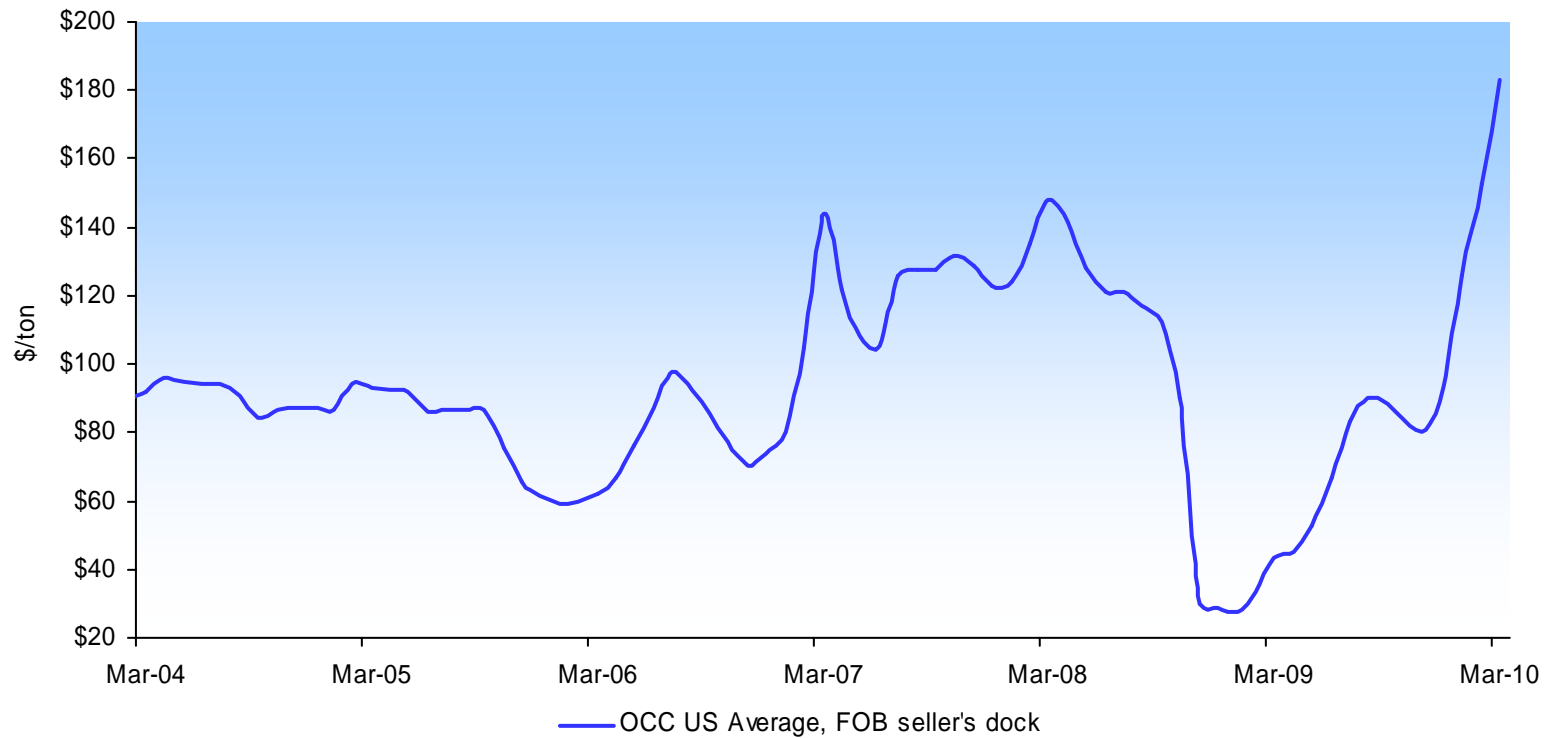


Source: AF&PA



Review of Recent Market Trends

Raw Materials Have Created Supply & Cost Issues

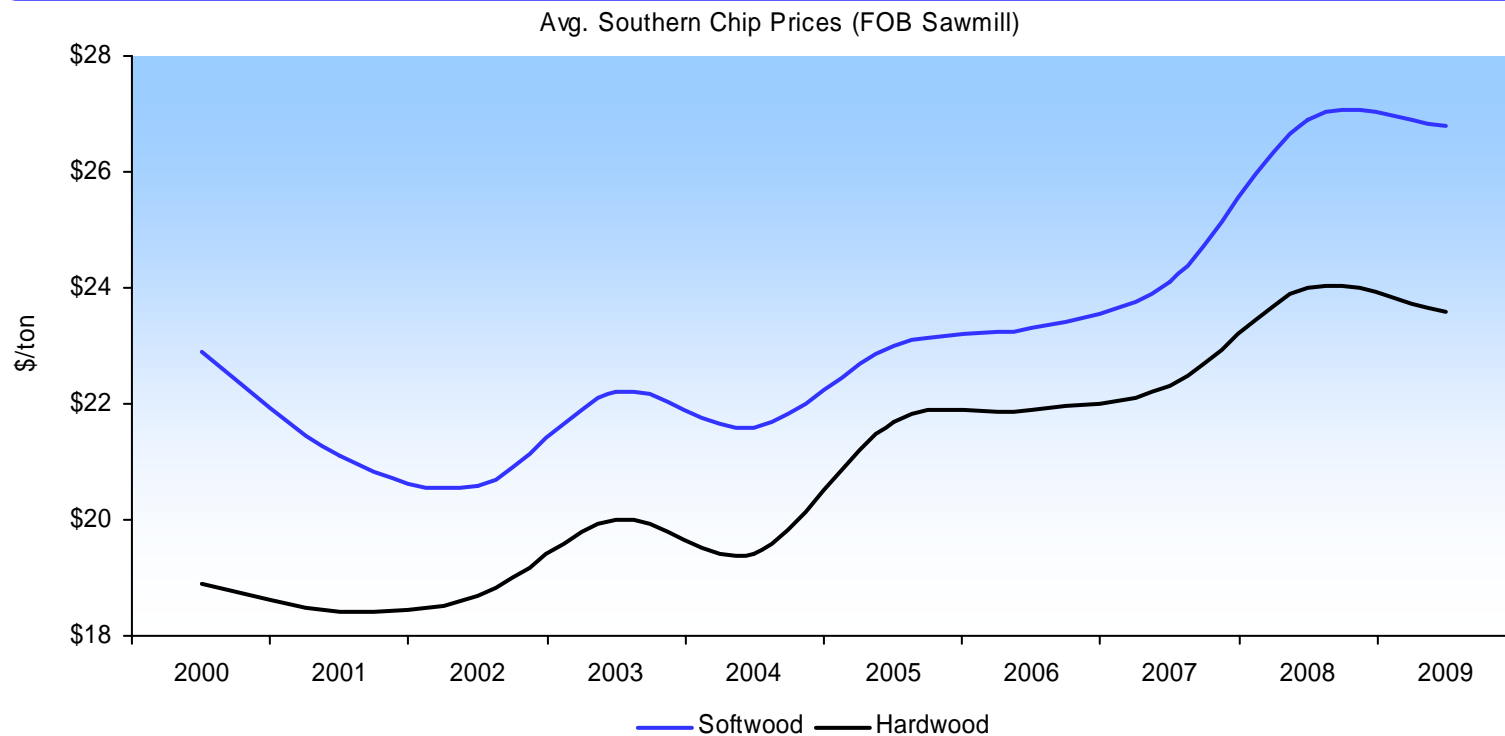


Source: RISI – Pulp & Paper Week



Review of Recent Market Trends

Raw Materials Have Created Supply & Cost Issues

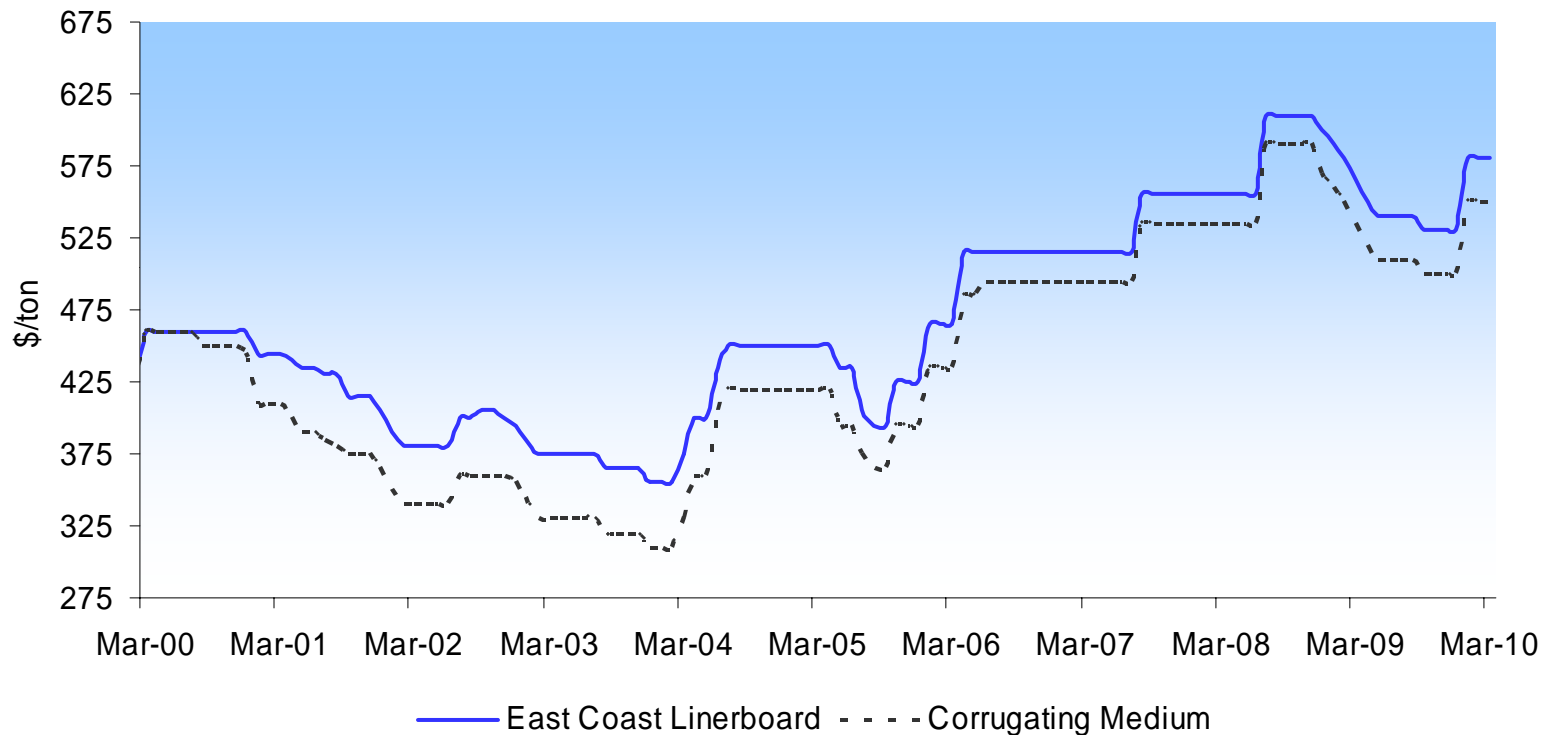


Source: RISI – Pulp & Paper Week



Review of Recent Market Trends

Recent Published Price Trends



The Surprise for Many? “That Prices Didn’t Fall More in 2009”

“Spot” Pricing Appears To Have Fallen More Than Indices

Source: RISI – Pulp & Paper Week



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Key Industry Developments

Capacity Rationalization Remains A Key Theme

Period	Company	Grade	Location	Capacity (in tons)	Description
Jan-07	Longview Fiber	Corrugated Medium	Longview, WA	82,000	Closure
Jun-07	Smurfit-Stone	Corrugated Medium	Carthage, IN	52,000	Closure
Jun-07	Smurfit-Stone	Corrugated Medium	Vernon, CA	148,000	Closure
Jul-07	Banner Fiberboard	Linerboard	Wellsburg, WV	20,000	Closure
Oct-07	International Paper	Corrugated Medium	Terre Haute, IN	200,000	Shutdown
Oct-08	Smurfit Stone	Corrugated Medium	Snowflake, AZ	135,000	Shutdown
Oct-08	International Paper	Containerboard	Albany, OR	250,000	Indef. Idling
Nov-08	Catalyst	Containerboard	Campbell River, BC	131,000	Shutdown
Nov-08	International Paper	Linerboard	Valiant, OK	430,000	Shutdown
4Q 2008	Smurfit Stone	Corrugated Medium	Matane, QC	174,000	Indef. Idling
4Q 2008	Smurfit Stone	Linerboard	Missoula, MT	171,000	Indef. Idling
4Q 2008	Smurfit Stone	Corrugated Medium	Jacksonville, FL	170,000	Indef. Idling
1Q 2009	Georgia Pacific	Corrugated Medium	Cedar Springs, GA	265,000	Indef. Idling
1Q 2009	Georgia Pacific	Linerboard	Palatka, FL	40,000	Indef. Idling
3Q 2009	Smurfit Stone	Corrugated Medium	Ontonagon, MI	280,000	Indef. Idling
Dec-09	Smurfit Stone	Linerboard	Missoula, MT	620,000	Shutdown
Dec-09	International Paper	Containerboard	Albany, OR	330,000	Shutdown
Dec-09	International Paper	Containerboard	Pineville, LA	390,000	Shutdown
1Q10	West Fraser (Eurocan)	Linerboard	Kitimat, BC	370,000	Closure

It's Not Just Mills, Box Plant Closures Occurring As Well

Source: AF&PA, RISI



Key Industry Developments

Industry's #2 Player Files for Reorganization

- Filed for Ch. 11 Bankruptcy Protection on Jan 26, 2009
- Biggest Bankruptcy Filing in the History of the NA Paper & Forest Products Industry
- High Financial Leverage at the Time of Filing of Bankruptcy
 - Net Debt/EBITDA (FY 2008) = ~8.0x
- Pension Plans Significantly Under-Funded at the End of 2008
 - Under-Funded Status Rose From \$407MM in 2007 to \$1B in 2008

Fears About Smurfit's Behavior in Bankruptcy Appear Unfounded

Financial Condition Post-Bankruptcy Is Much Stronger

Source: RISI – Pulp & Paper Week



Key Industry Developments

Black Liquor Was A Huge Issue In 2009

Company	BL Credit '09 (\$MM)
International Paper	\$2,100
Packaging Corp. of America	\$171
Rock Tenn	\$76
Smurfit-Stone	\$633
Temple Inland	\$213

Source: Company filings, DB estimates



Key Industry Developments

Industry Emerging From Downturn In Healthier-Than-Expected Condition

Company	Net Debt - 12/31/2009 (\$MM)	Net Debt - 12/31/2008 (\$MM)	Net Debt/EBITDA 2010E	Net Debt/EBITDA 2009A
Greif*	\$646	\$640	1.3x	1.7x
International Paper	\$7,141	\$10,930	2.3x	3.9x
Packaging Corp. of America	\$397	\$508	1.0x	1.5x
Rock Tenn**	\$1,338	\$1,646	2.8x	3.1x
Temple Inland	\$674	\$1,151	1.5x	2.9x

* Year ended Oct 09

** Year ended Sep 09

Source: Company filings, DB estimates



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Issues Ahead For The Sector?

Economic Questions:

- 1) **Will Demand Accelerate or Are We Stuck in the “New Normal”?**
- 2) **Demand Outside the US?**
 - **Europe Is the Biggest Question Mark**
- 3) **Strength of US\$?**
 - **Continued Rally Could Create Headwinds**



Issues Ahead For The Sector?

Industry Issues:

- 1) **Impact of Capacity Growth in Asia & Central Europe?**
 - **On Secondary Fiber Markets? On Trade Flows?**

- 2) **Will We See New Capacity in North America?**
 - **Greenfields like Pratt in Shreveport?**

 - **Conversions like Boise at DeRidder?**



Issues Ahead For The Sector?

Industry Issues (Contd.):

- 3) **The Future For Smurfit-Stone?**
 - **Financial Strategy with Stronger Balance Sheet?**
 - **Role Within Consolidating Industry?**
- 4) **“Thinking Outside The Box”: Customers/Customer Relationships?**
 - **Do They “Need” to Use Corrugated?**
 - **Can It Become An Even Better Choice?**
 - **Responding to Pressures to Reduce Packaging?**
 - **Are The Indices The Best Way to Measure Value?**
 - **What Are They Measuring?**



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Has The Sector Been Re-Rated?

Tough to Argue Sector Has Been Re-Rated

Key Investor Issues:

- 1) **Volatility of Earnings & Cashflows**
 - **Lack of Predictability**
- 2) **Exposure to Exogenous Factors**
 - **Exchange Rate Volatility**
 - **Input Cost Swings**
- 3) **Uncertainty Around Volume Trends**
- 4) **How Will You Use Our Cash?**
 - **Skepticism About Both Capital Projects & Acquisitions**



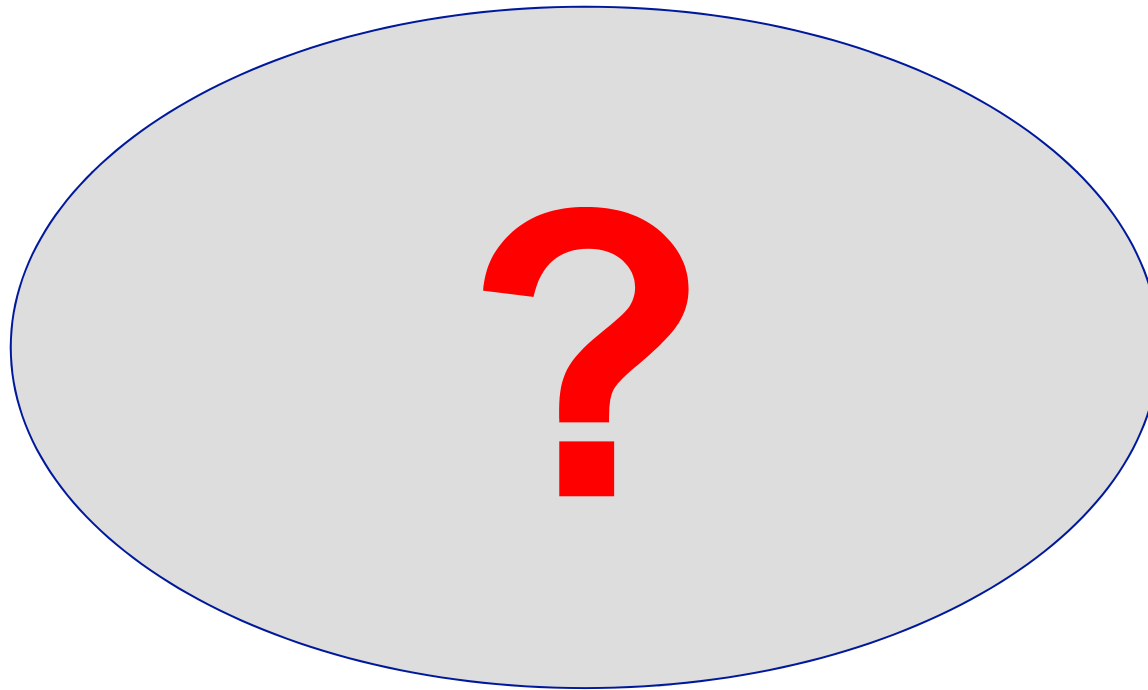
Has The Sector Been Re-Rated?

Are There Other Business “Models” Which Make Sense? Metal Can Companies???

- **Mature Domestic Markets**
 - High Level of Consolidation
 - Capital Discipline
 - Constantly Rationalizing Footprint
 - Willingness to Return Capital to Shareholders
- **Growth in Offshore Markets**
- **Re-Think Managing Price/Cost Risk**
 - Pass-Through on Key Raw Materials



Questions / Discussion



Appendix 1

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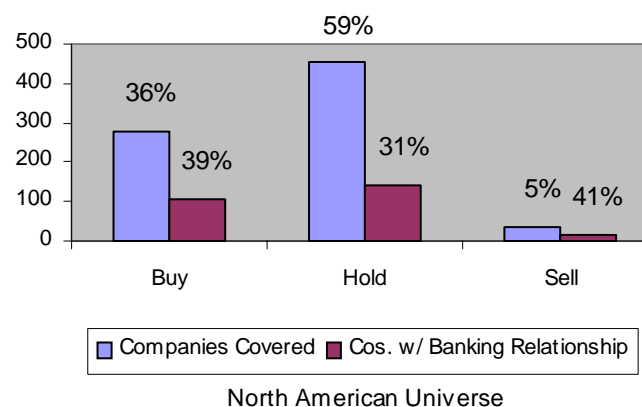
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