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# **Global Trends in the Forest Products industry**

## **Council of Forest Industries 2006 Annual Convention**

at

**Grand Okanagan Lakefront Resort**

**Kelowna BC**

**April 6 - 2006**

by

Lars-Göran Sandberg

President & CEO, Timwood AB

# Contents

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✓ Structural changes in the Forest products industry

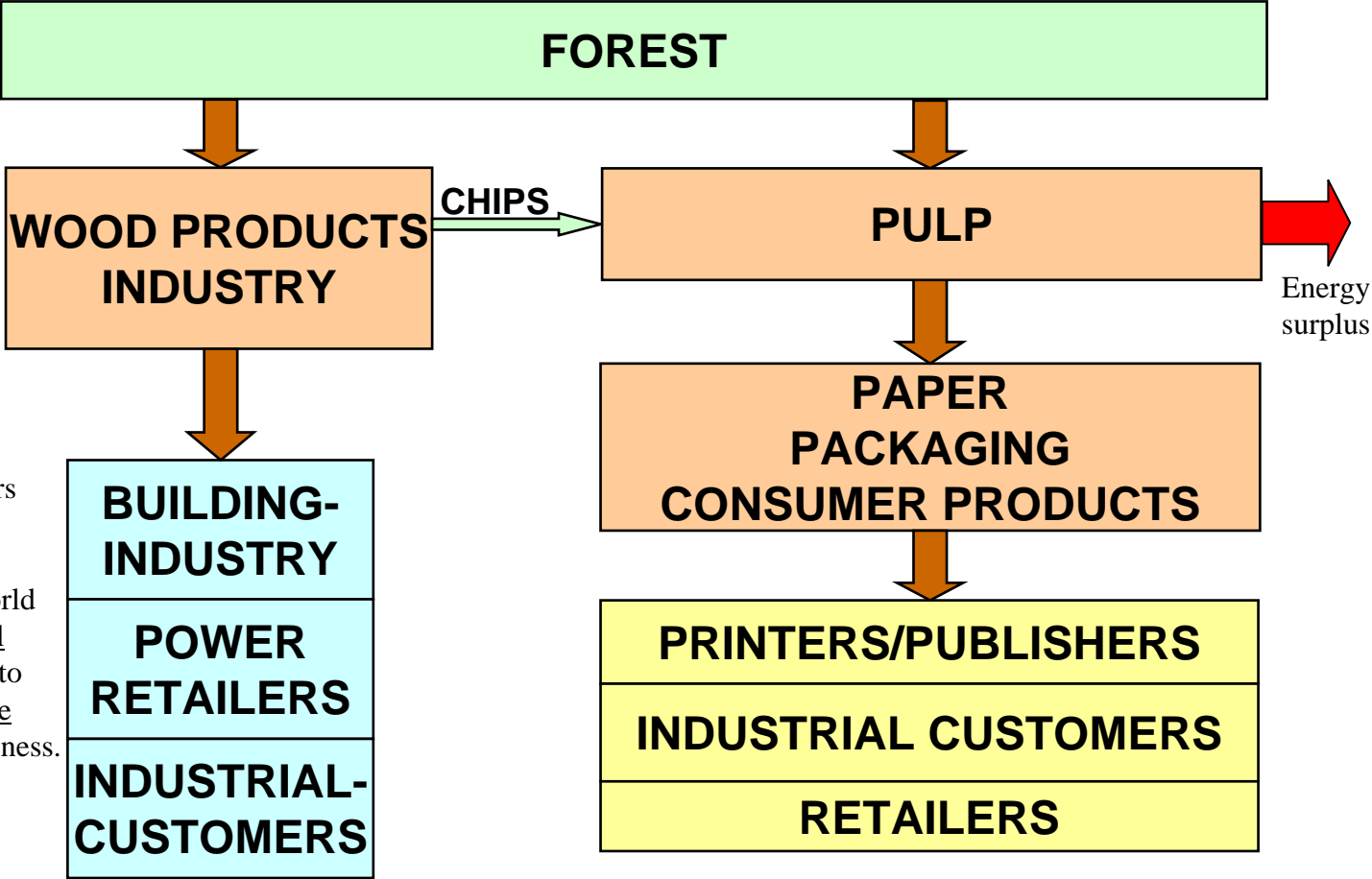
Sustainability issues

Market drivers

Key observations

# Historically, an integrated industry structure was driven by the resource. In the future, industry structure will be driven by the customer

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**Chain of logics:**  
No synergies between customers + a need for integrated forest industries to concentrate to fewer product lines to reach world scale + controlling raw material flow through ownership trends to be of lesser strategic importance → Spin-off wood products business.

# International Paper announced corporate portfolio restructuring

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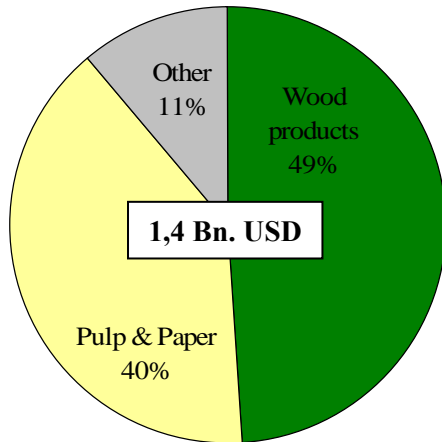
- ◆ Global operations with facilities in Europe, Asia, Oceania & South America. Expects future solid growth in platforms in Brazil, Eastern Europe and Russia.
- ◆ Focused largely on pulp & paper and packaging, with 47% and 30% of investment in 2004, respectively.
- ◆ Sold Weldwood of Canada on December 31, 2004 to West Fraser.
  - ★ Included 7 lumber, 2 plywood and 1 LVL mill.
- ◆ July 2005 announced large “Portfolio change” IP shall focus on two key platform business
  - ★ Uncoated Papers
  - ★ Industrial & Consumer Packaging
- ◆ September 2005 completed sale of Carter Holt Harvey to Rank Group (1,1BnUSD)
- ◆ Following “Portfolio change” potentially sale or spin off
  - ★ SC paper business
  - ★ Beverage Packaging Business
  - ★ Kraft Paper business
  - ★ Arizona Chemical
  - ★ Forestlands
  - ★ Wood products business
  - 30% of 2004 sales
  - 40% of 2004 results
  - est. to generate 8-10 BnUSD in proceeds

# Canfor increase sales in Wood Products from 49% in '95 to 77% in '05 at the expense of Pulp & Paper

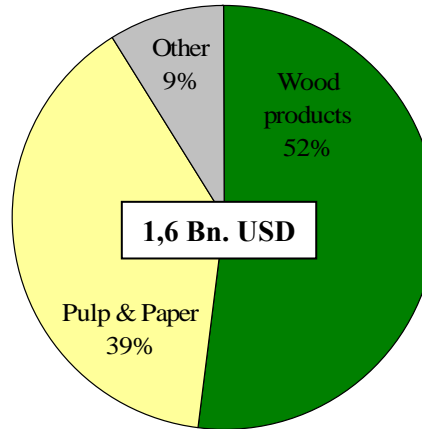
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## Sales by product line

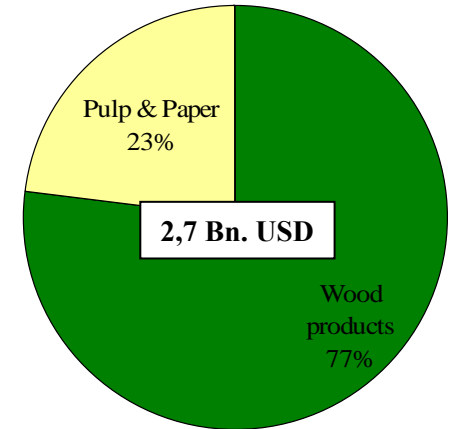
1995



2000



2005



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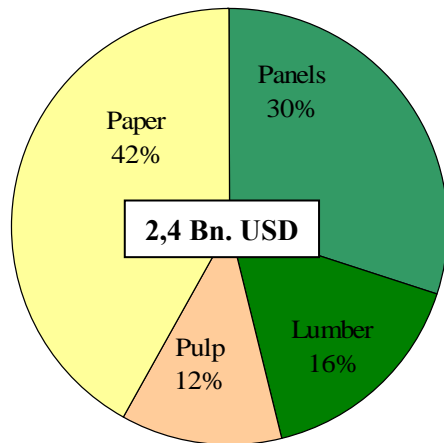
Source: Company data

# Nexfor→Norbord is now focused entirely on wood panels

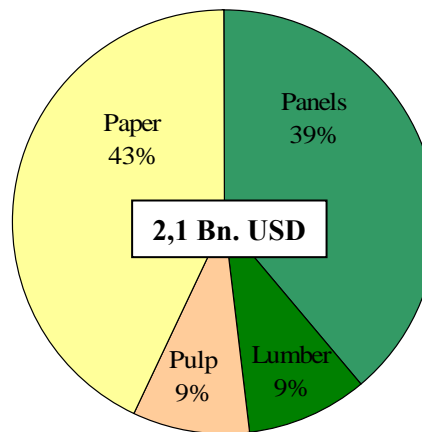
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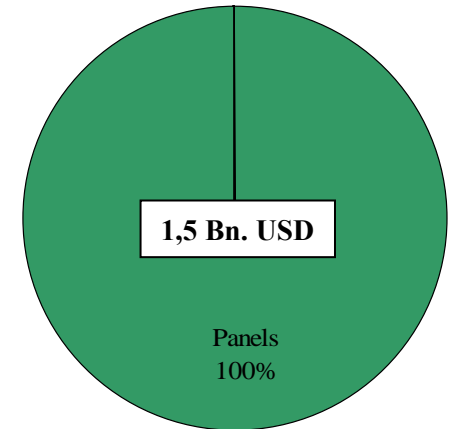
1998



2000



2005



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Source: Company data

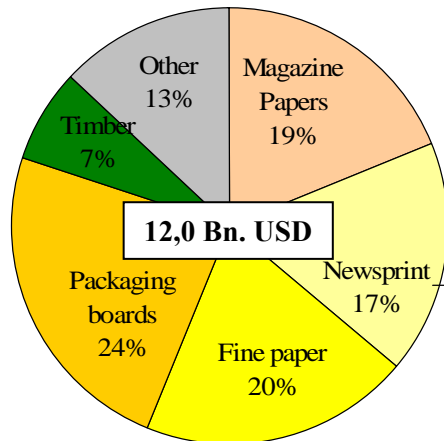
**TIMWOOD AB**

# Stora Enso has had modest sales growth since 1998 and a stable product portfolio

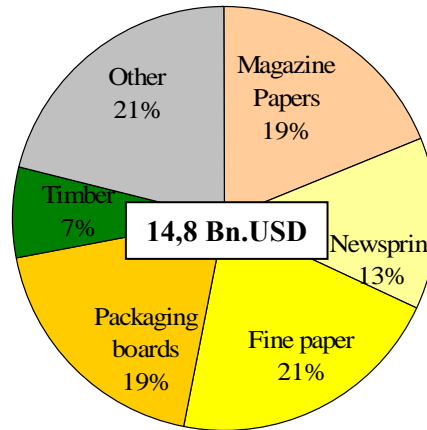
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## Sales by product line

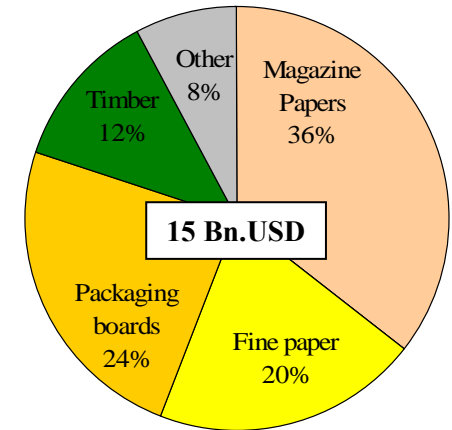
1998



2000



2005

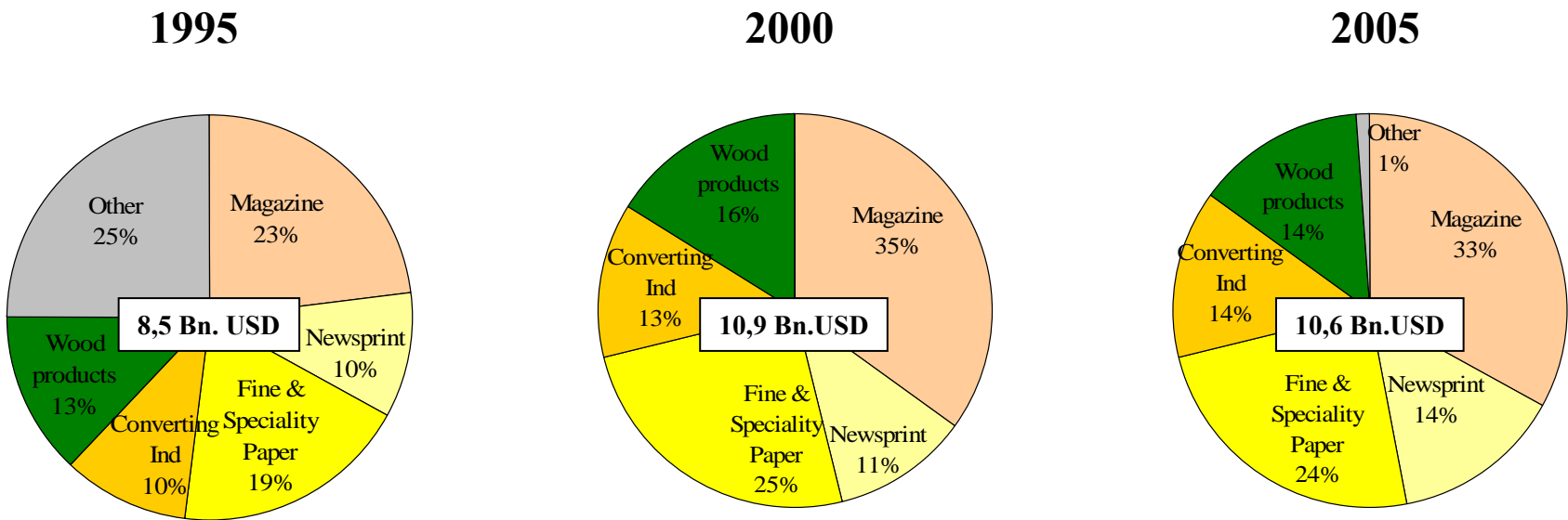


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Source: Company data

**UPM's product portfolio distribution has not changed much since year 2000; magazine papers and newsprint account for nearly 50% of total sales**

Sales by product line



Source: Company data

# Contents

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Structural changes in the Forest products industry

✓ Sustainability issues

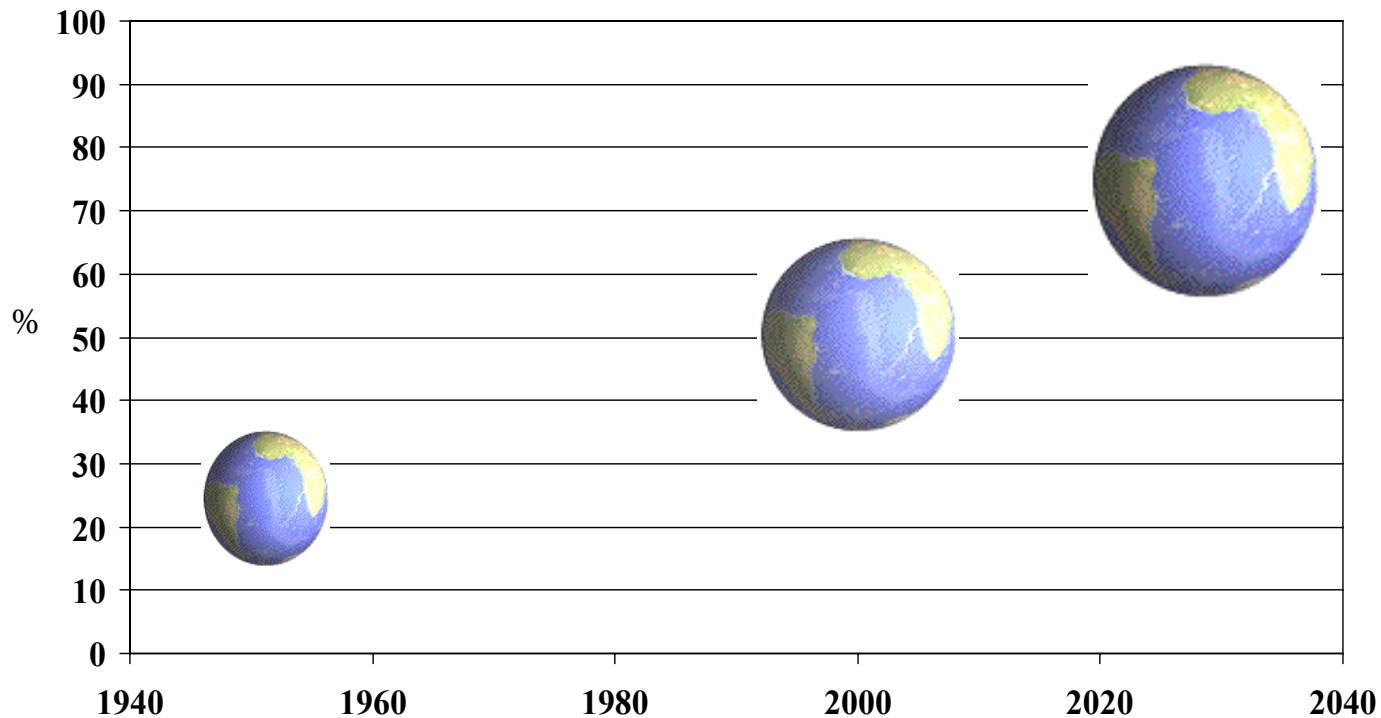
Market drivers

Key observations

# Environment is one of the most important global issues of today – and it will not go away

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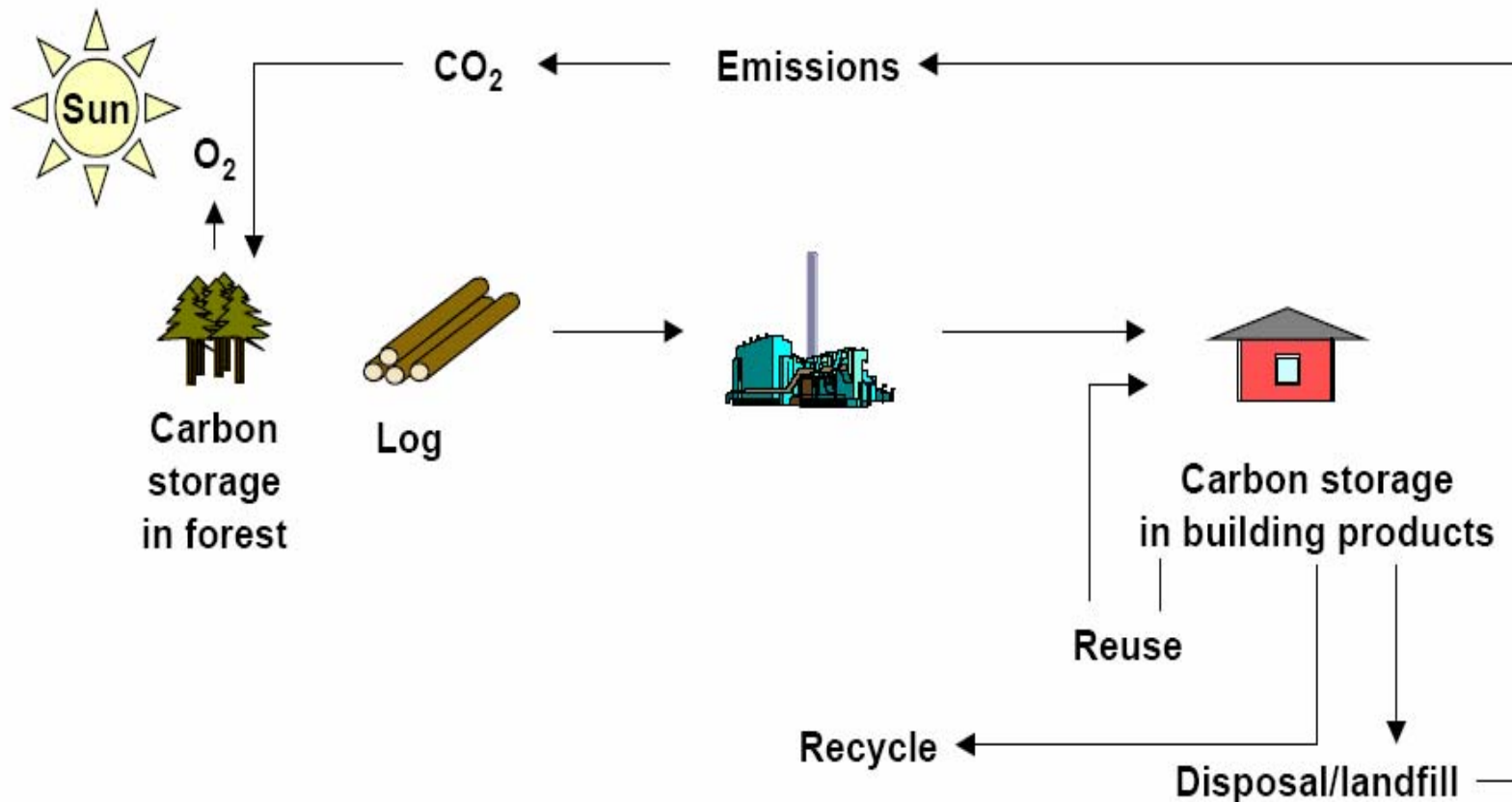
Share of World's population involved in international trade



- ♦ With a strong growth in the share of World population that participates in trade, energy conservation and environmentally responsible use of the resources are key ingredients in maintaining a long-term sustainable growth.

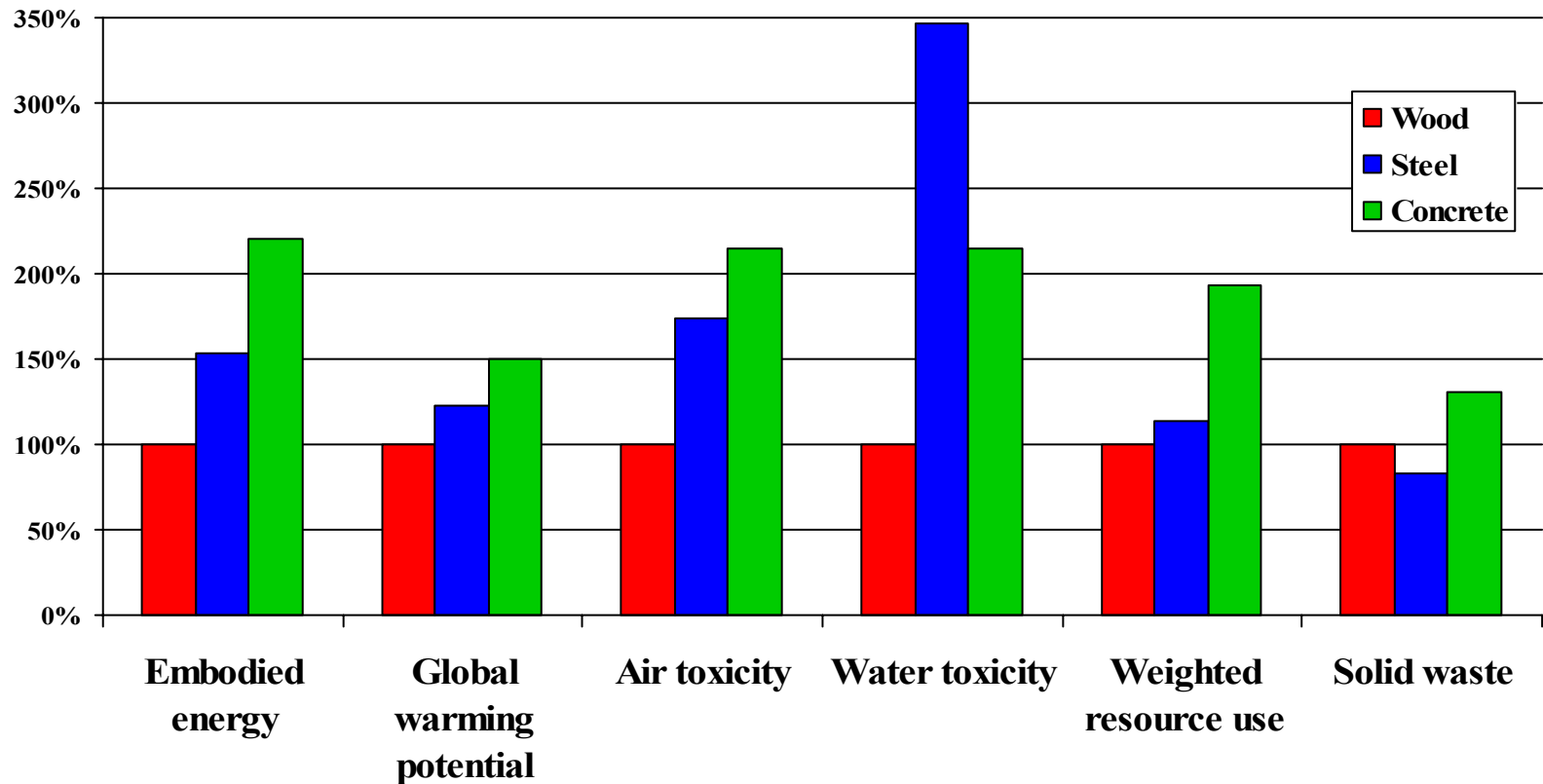
# Positive lifecycle assessments are an important tool in the promotion of wood product usage

## Lifecycle Assessment of Wood Building Products



# Wood frame buildings have a lesser environmental impact than buildings made of competing materials

Environmental impact relative to a typical wood frame home



Source: Forintek

# Wood has a good story to tell!

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- ◆ The Wood Environmental Scorecard:
  - ★ Wood helps in mitigation of climate.
  - ★ Wood is renewable.
  - ★ Wood is energy efficient.
  - ★ Wood is natural, feels pleasant, has an inviting texture, and creates wellness experiences.
  - ★ Wood utilisation contributes to sustainable development.
  - ★ Wood allows environmental reasoning in product design: rethink, replace, reduce, recycle, reuse, repair
  - ★ Wood-based materials offer cost efficiency and competitiveness in building.

# Contents

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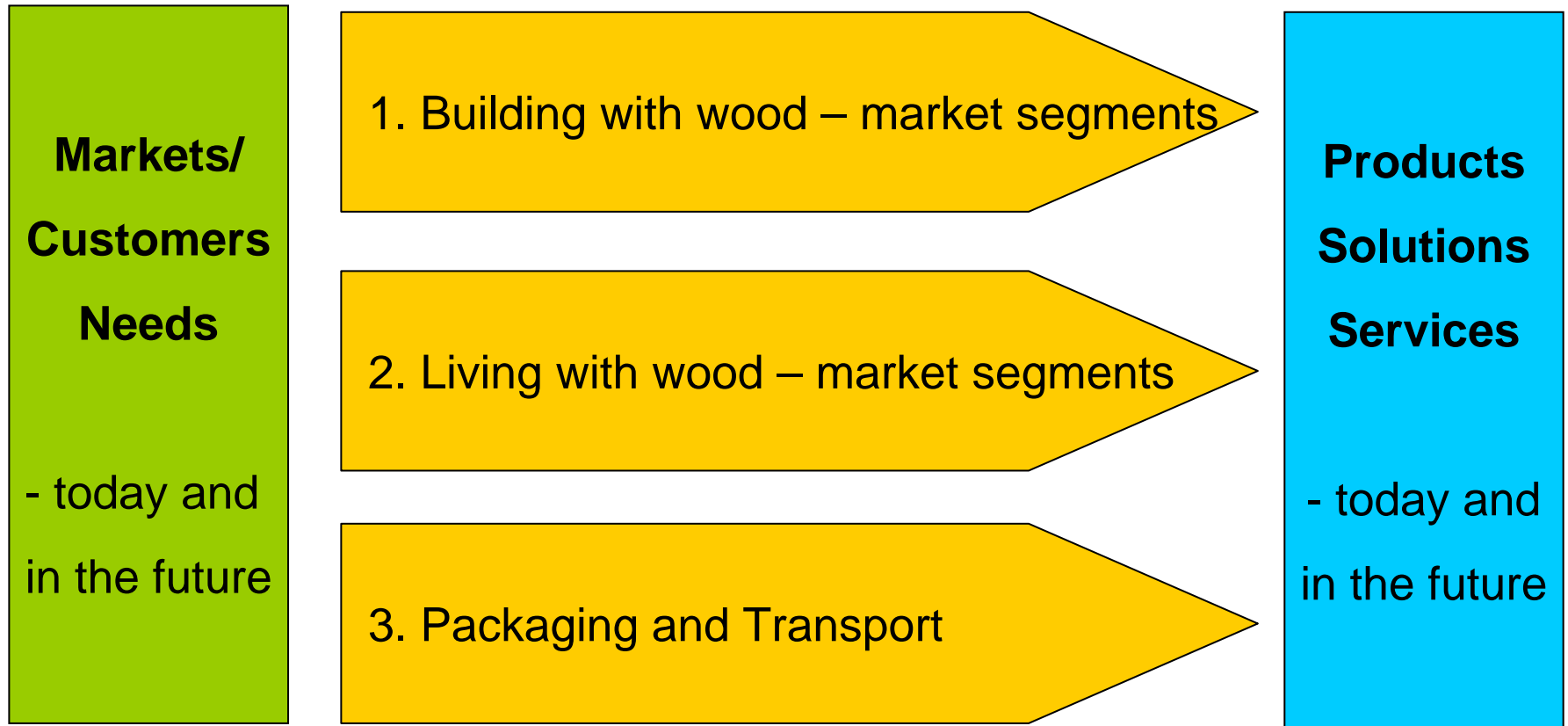
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# There are three main value chains

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- ◆ There are three main areas for consumption of wood based products: Building with wood, Living with wood, and Packaging/Transport.

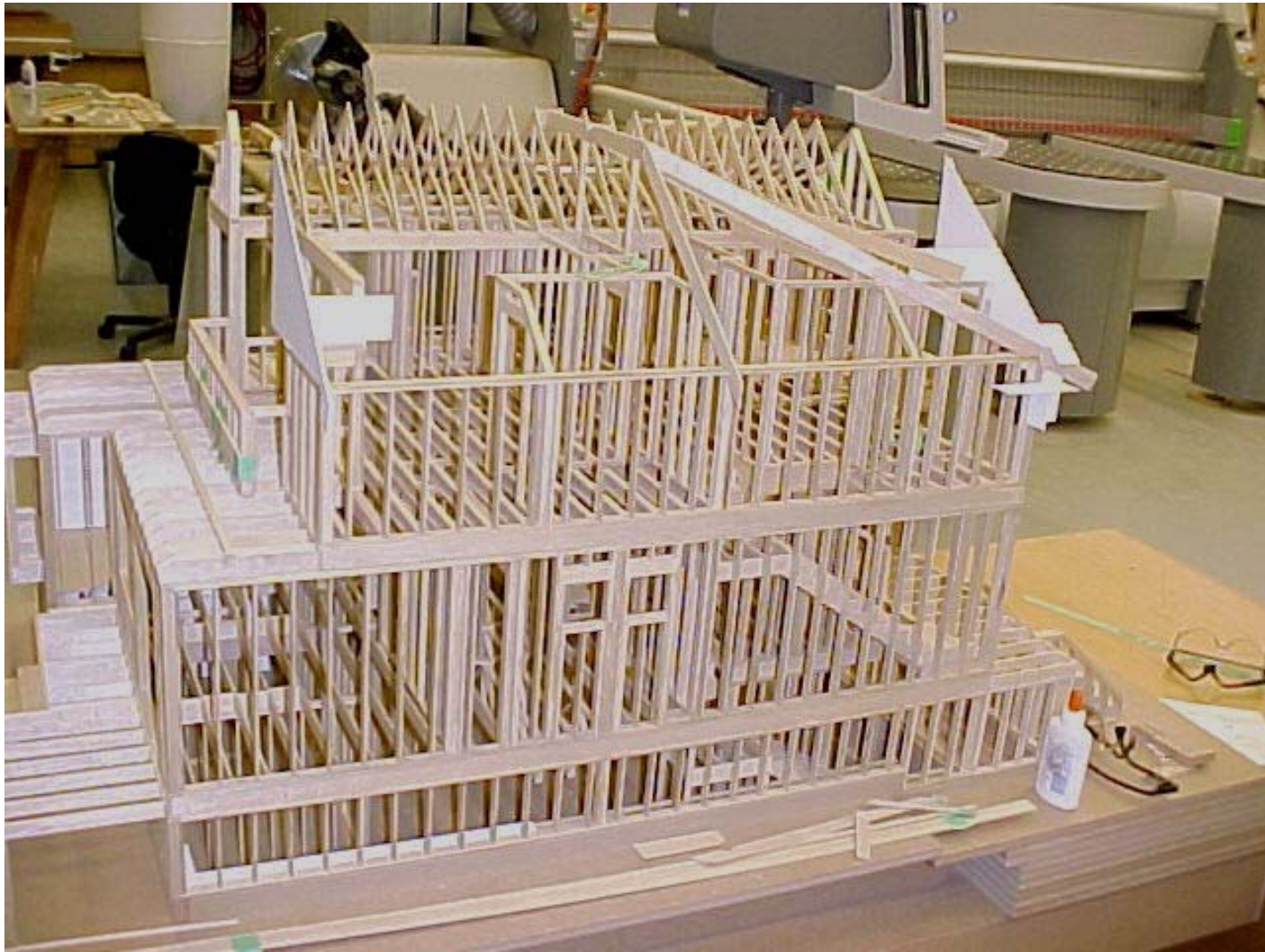
# Building with wood – Civil engineering

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# Building with wood – Residential - new

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# Building with wood – Non-residential - new

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# Living with wood market segments

## Home improvement

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# Living with wood market segments

## Hotel interiors

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# Living with wood market segments

## Office systems

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# Customers segments are evolving to meet market and competitive demands

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## Building industry

- ◆ Shortage of skilled building workers
- ◆ Focus on increased quality in the whole building process
- ◆ Focus on shorter lead times and increased profitability
- ◆ More prefabrication by suppliers
- ◆ Builders become developers and less involved in production

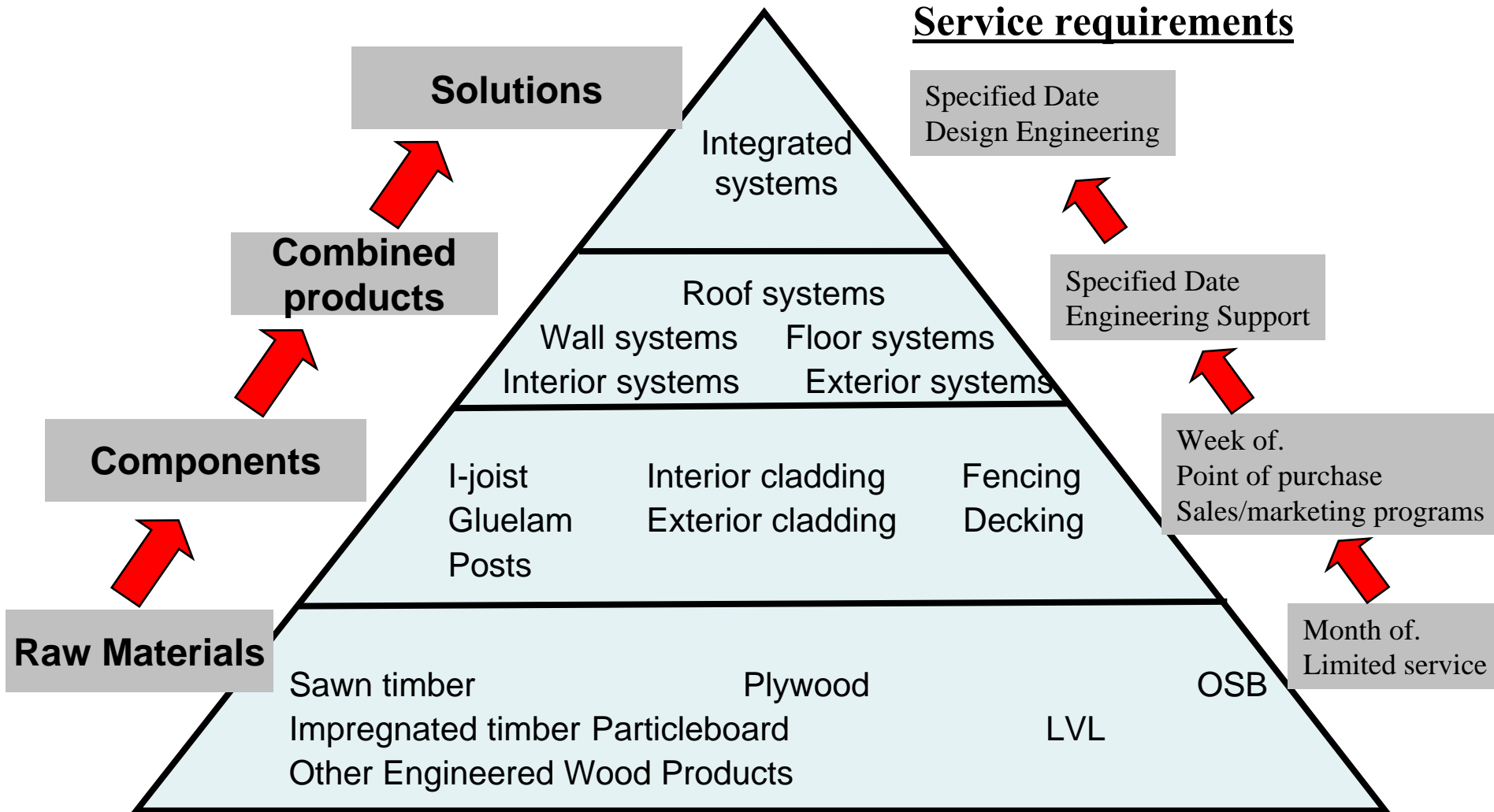
## Distribution channels

- ◆ Increased dominance of power retailers with large geographical variation
- ◆ Fewer and bigger suppliers that grow bigger with their growing customers (category suppliers)
- ◆ Demands on development of complete portfolio and service
- ◆ Traditional importers/wholesalers decrease significantly in importance





## Industrial end-users

- ◆ Consolidation, polarization and internationalization of the industry
- ◆ Increased demand on customized products.
- ◆ Increased demand on sales engineering and direct contact

# The product and service pyramid: from wood products to building parts.



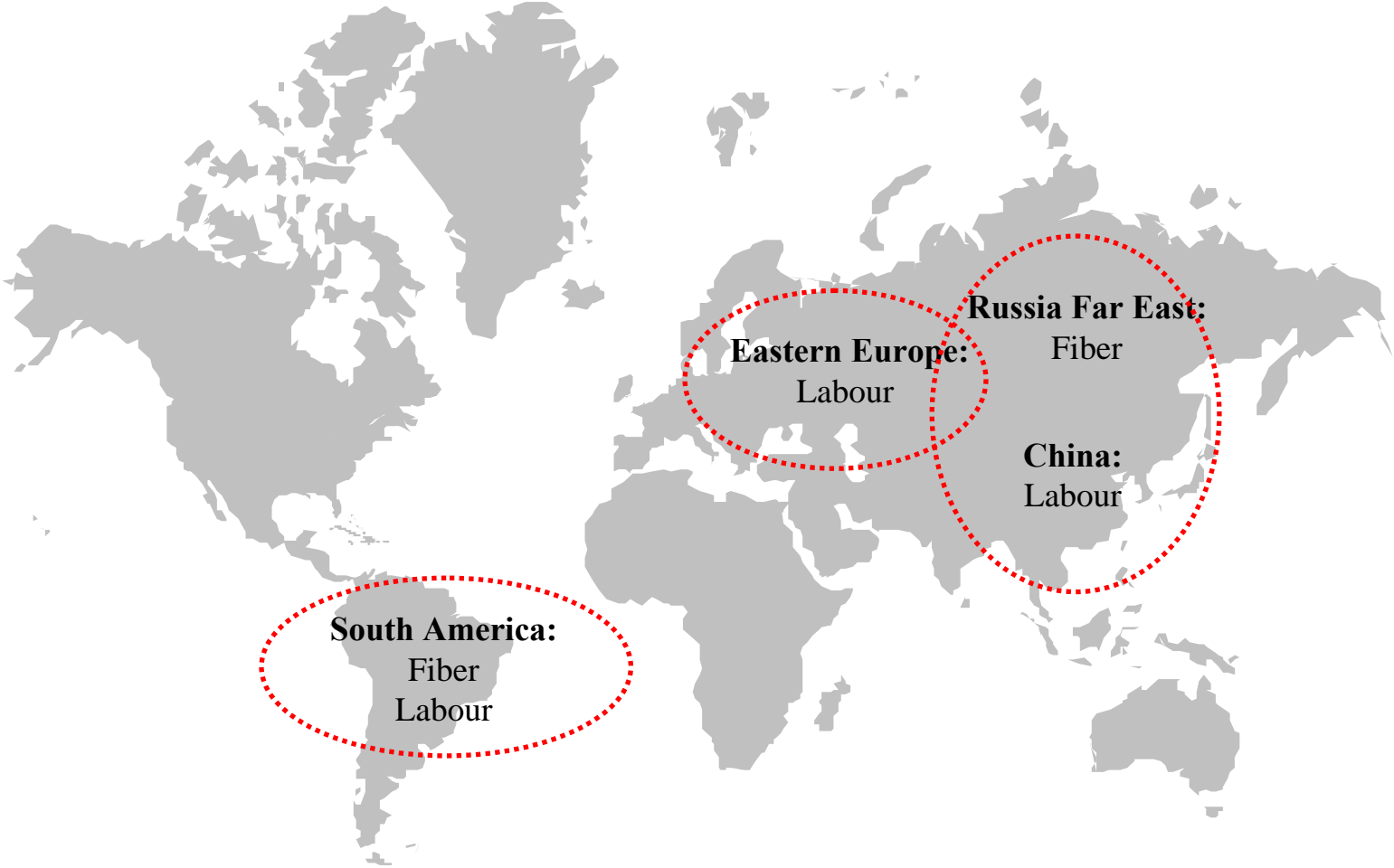
# The world of power retailers – larger with more buying power

			 Let's Build Something Together™	
<b>Sales 2005</b>	\$ 312 billion	\$ 81,5 billion	\$ 43,2 billion	\$ 19,0 billion*
<b>Number of stores</b>	6 200	2 040	1 234	221
<b>New stores 2005</b>	1 000 (est.)	150	150	10
<b>Employees</b>	1,6 million	345 000	175 000	84 000 ( '04/'05)
	Fiscal year end 31 jan '06	Fiscal year end 31 jan '06	Fiscal year end 31 jan '06	Fiscal year end 31 aug '05

Source: Annual Reports

# Power retailers, builders and their key suppliers are increasingly scanning globally for low cost sourcing

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# Contents

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# Key observations

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- ◆ Major transformation of forest products companies
  - ★ Pulp being transferred increasingly to southern Hemisphere
  - ★ Some paper grades is being substituted by electronic media
- ◆ Wood products a likely winner in the northern hemisphere
- ◆ Sustainability issues will be positive for wood products
- ◆ Supply of raw material is getting tighter
- ◆ Expansion outside NA might be necessary for BC wood products companies
- ◆ The market is demanding more value added products, systems solutions and services in all key mega markets segments