



Council of Forest Industries and BC Lumber Trade Council

The Forest Industry in B.C. Putting it in Context

May, 2004



SLIDE 1



SLIDE 1

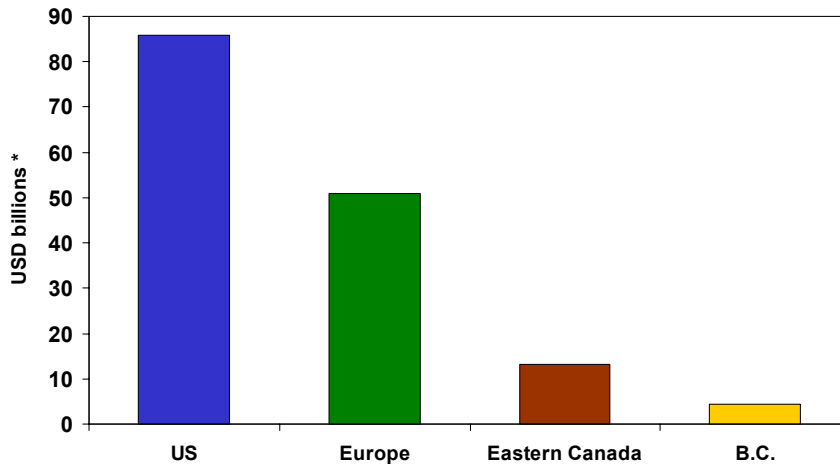
(TITLE PAGE)

- ❖ Like to cover off number of issues that drive BC forest industry
- ❖ Important to understand where (or have a picture of where) BC stands on the world stage
- ❖ We are a small open economy
- ❖ Very dependent on trade and hence exchange rates
- ❖ Essentially a price taker for our forest products
- ❖ Which means we have to be globally competitive to survive

➤ *So where do we stand?*

Global Industry Net Sales 2003

BC pales by comparison



* Combined net sales of five largest public companies in each region



SLIDE 2



SLIDE 2

- ❖ In terms of the global forest industry, BC ranks relatively low
- ❖ The position of the top companies is driven by pulp & paper
- ❖ Values at this chart are (US \$ billion) and are the top 5 public companies in each region

Europe \$51.1

Eastern Canada \$13.3

B.C. \$4.5

➤ *Looking at this another way...*

Global Industry Top 5* Public Companies, by Region

- **U.S.:** International Paper (1); Georgia Pacific (2); Weyerhaeuser (3); Kimberly-Clark (4); Boise (13)
- **Europe :** Stora Enso (5); UPM Kymmene (7); Svenska Cellulosa (10); Metsaliitto (11); Jefferson Smurfit (16)
- **Eastern Canada:** Domtar (22); Abitibi-Consolidated (21); Cascades (31); Tembec (35); Nexfor (46)
- **B.C.:** Canfor/Slocan (34E); West Fraser (64); Interfor (93); Doman (100); Riverside/Lignum (96E)

* Based on net sales value (2002 ranking in PwC Top 100)



SLIDE 3



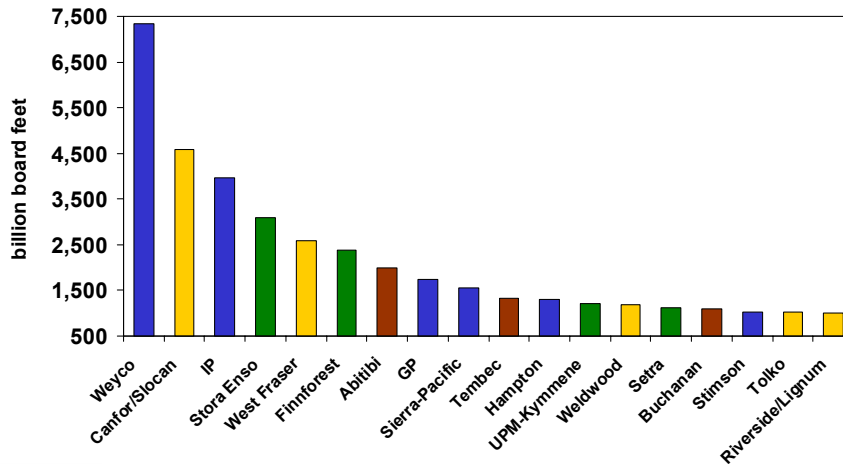
SLIDE 3

- ❖ This slide gives the relative ranking of each of these 5 public companies by region **but** within an overall global ranking
- ❖ So the top 3 are all U.S. – IP, GP and Weyco
- ❖ Our newly merged Canfor/Slocan is only #34
- ❖ And other BC companies are well down the list

➤ ***But...***

Global Industry Lumber Production – 2003

BC's strength



Source: Wood Markets – March, 2004

SLIDE 4



SLIDE 4

- ❖ B.C.'s strength is its lumber sector
- ❖ 7 Companies on this graph have operations in B.C.
- ❖ Canfor is Home Depot's biggest supplier
- ❖ B.C. softwood lumber production was 15.3 bcf last year (46.5% of Canada's total) with 10 bcf going to the U.S. (53% of Canada's exports)

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SLIDE 4 (cont'd)

- ❖ Total Canadian Sales \$53 billion
- ❖ Pulp \$6 billion
- ❖ Newsprint \$8 billion
- ❖ Other Paper \$8 billion
- ❖ Lumber \$15 billion (28%)
- ❖ Boards \$16 billion

❖ Lumber Capacity

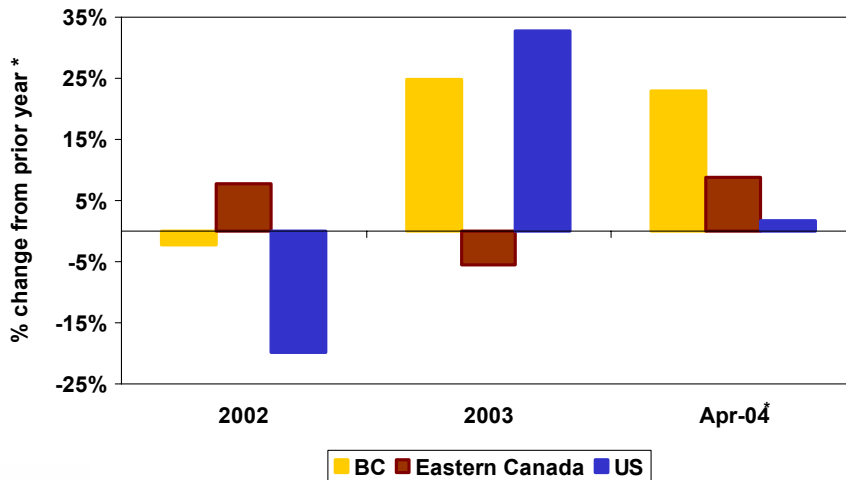
Weyco	7.3 bcf
Canfor	5.0 bcf
IP	4.0 bcf
WF	2.6 bcf
Abitibi	2.0 bcf
Weldwood	1.2 bcf
Buchanan	1.5 bcf
Tolko	1.0 bcf
Riverside	1.0 bcf

- ❖ With B.C. being 50% lumber not surprising B.C. is small on global scale

➤ *But there is good news...*

North American Industry Share Prices

Market recognizing BC gains



* in combined share price of top 5 public companies in region
SLIDE 5



SLIDE 5

- ❖ The market is starting to recognize B.C.
- ❖ Share prices for top 6 B.C. companies (Ainsworth, Canfor, Interfor, Riverside, West Fraser, Norske) increased 30% from January 1, 2003 to April 30, 2004

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SLIDE 5 (cont'd)

- ❖ Put another way from a 52 week low to April 30/04:

Canfor up 107%

Riverside up 111%

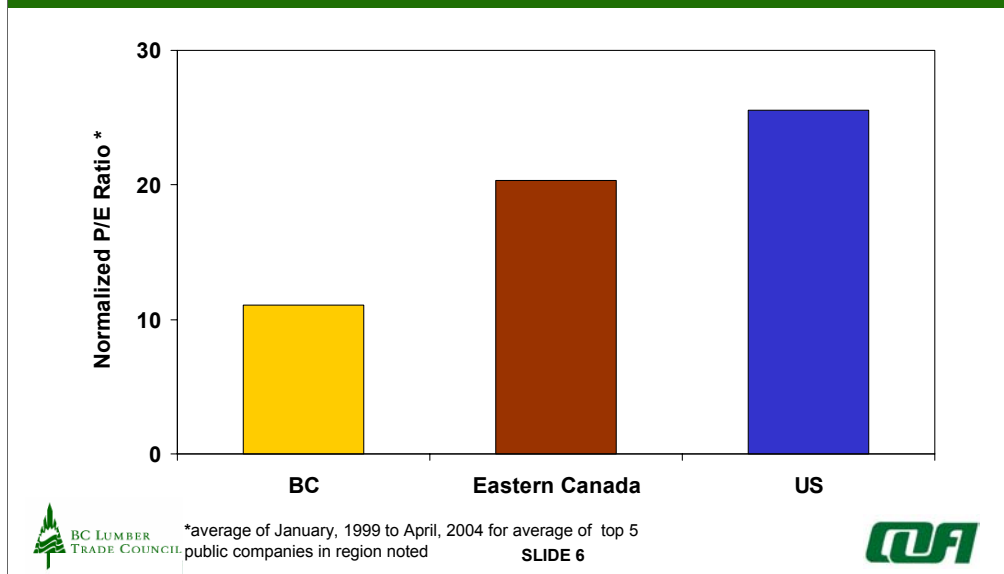
WF up 49%

- ❖ B.C. is catching up, and
- ❖ Market is looking favorably at B.C.
 - ❖ Economic performance
 - ❖ Policy change

➤ *However...*

North American Industry Price/Earnings Ratio

BC discount



SLIDE 6

- ❖ Our P/E Ratios continue to lag those in other regions
- ❖ Usually market expects higher, more consistent earnings growth from companies with higher P/E ratio

The PE Ratios are:

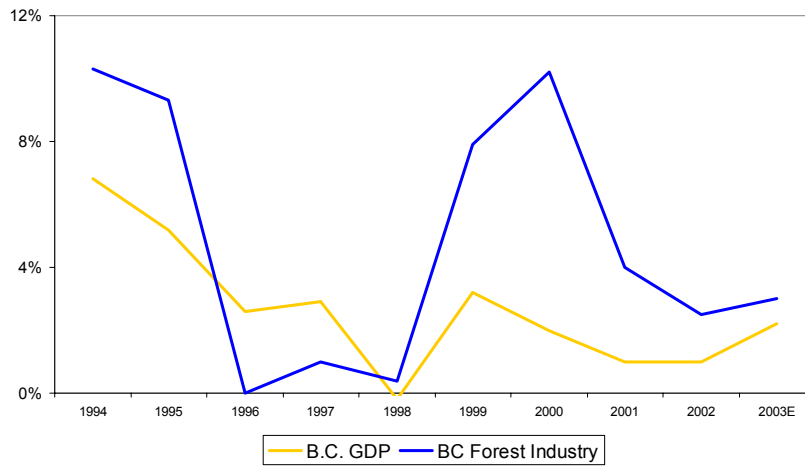
B.C.	11
EC	20
US	25

- ❖ So we still have some work to do to improve our track record

➤ *Now, lets look at some internal to B.C. issues...*

B.C. Forest Industry Return vs. GDP

Major driver of provincial economy



SLIDE 7



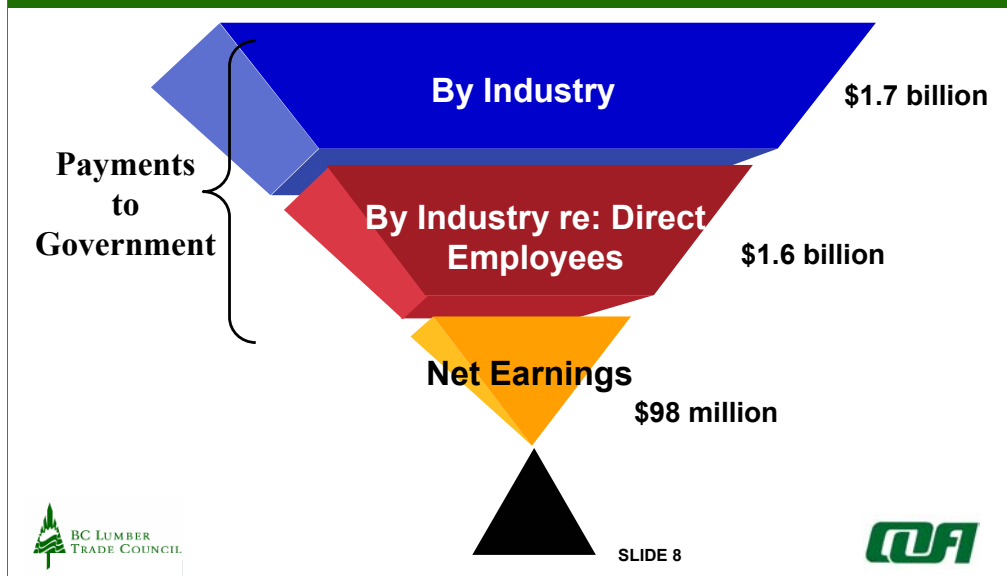
SLIDE 7

- ❖ As the forest industry goes, so does provincial GDP
- ❖ You can see the correlation on this slide which tracks year on year changes in GDP and ROCE since 1994

➤ *And...*

B.C. Forest Industry 2002

Weak foundation



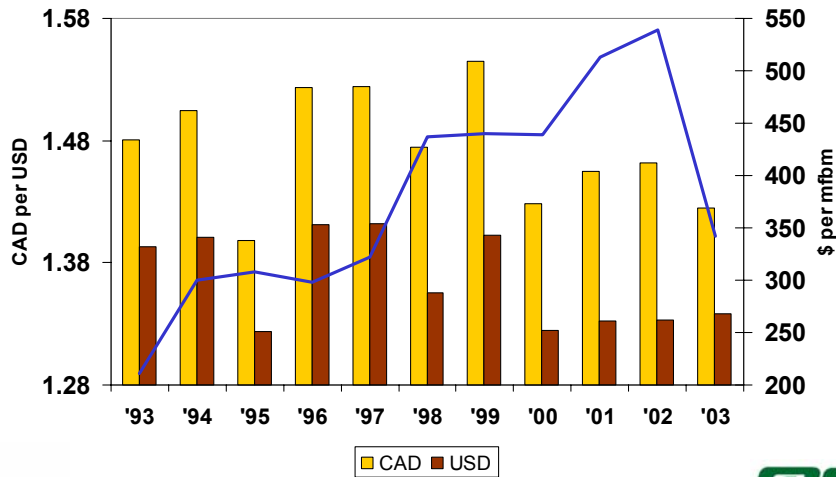
SLIDE 8

- ❖ The industry is a huge contributor to government revenues
- ❖ In 2002 when shareholders were left with \$98 million, all three levels of governments collected \$3.3 billion
- ❖ Even with the odd strong market in the U.S. such as in 199 results have been pretty dismal
- ❖ But of course we have had a great run up in prices in the last few months

➤ *Why the inconsistency?*

Export Dependent Industry Foreign Exchange

What if low price and low FX?



SLIDE 9



SLIDE 9

- ❖ Not only are we price takers – we are exchange takers
- ❖ Price of lumber in Canadian dollars is far more volatile than in U.S. dollars
- ❖ From 93-99 the low value of the Canadian dollar greatly assisted product returns
- ❖ But in 2003 the exchange rate appreciated but prices were flat for most of the year leading to poor returns

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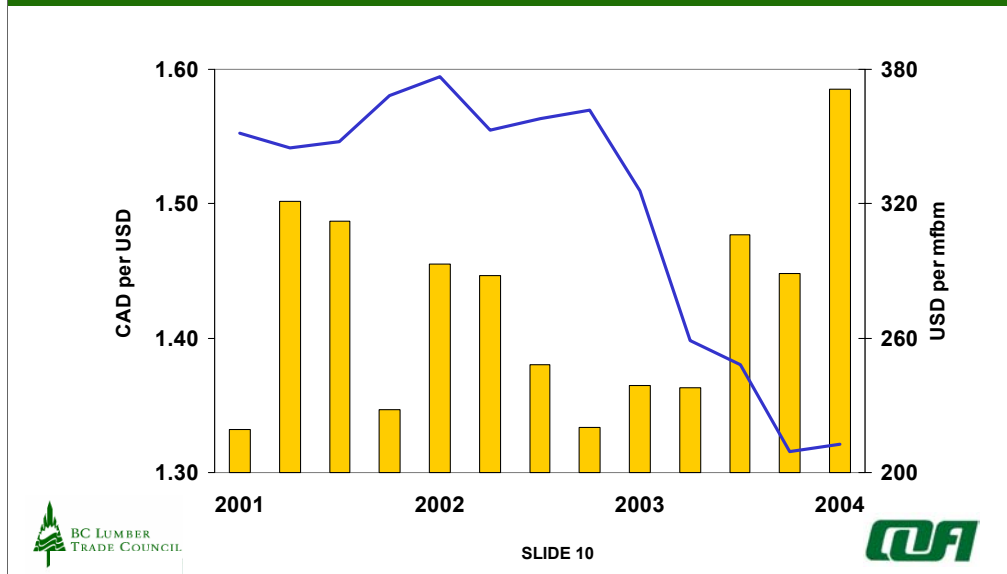
SLIDE 9 (Cont'd)

- ❖ Basically, prices go up and down while costs tend to remain relatively constant
- ❖ It's pretty simple – as price takers we must strive to control our costs
- ❖ So our mission has been to reduce costs

➤ *Particularly important when you factor in exchange...*

Export Dependent Industry Foreign Exchange

Recent quarters



SLIDE 10

- ❖ This slide shows the same result by quarter
- ❖ Volatile prices – US \$
- ❖ Volatile exchange rate
- ❖ In the last quarter we have had the best of both worlds.
Extremely high prices and a weakening of the Canadian dollar

➤ *The impact...*

Forest and Paper Industry Earnings Sensitivity

	Canadian Industry	BC Industry
<i>Annual</i> impact of 1 cent increase in CAD on sales revenue	\$530 million	\$180 million
<i>Annual</i> impact of change in CAD 2002 v 2003	(\$4.1 billion)	(\$1.4 billion)
<i>One-Time</i> reduction in CAD required to repay US debt, due to stronger CAD in 2003	\$3 billion	\$750 million



SLIDE 11



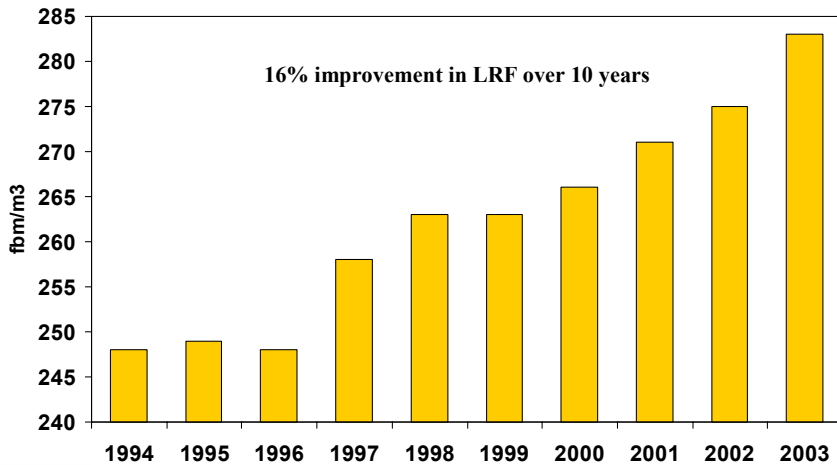
SLIDE 11

- ❖ This slide illustrates the sensitivity of earnings to exchange rate changes
- ❖ On a net basis, the appreciation of the dollar cost the industry \$650 million in 2003

➤ *So what did we do?*

B.C. Interior Lumber LRF

Continuous improvement



SLIDE 12



SLIDE 12

- ❖ Regained control of costs
- ❖ We have seen a 16% improvement in LRFs over the last 10 years
- ❖ As you can see this improvement has been continuous

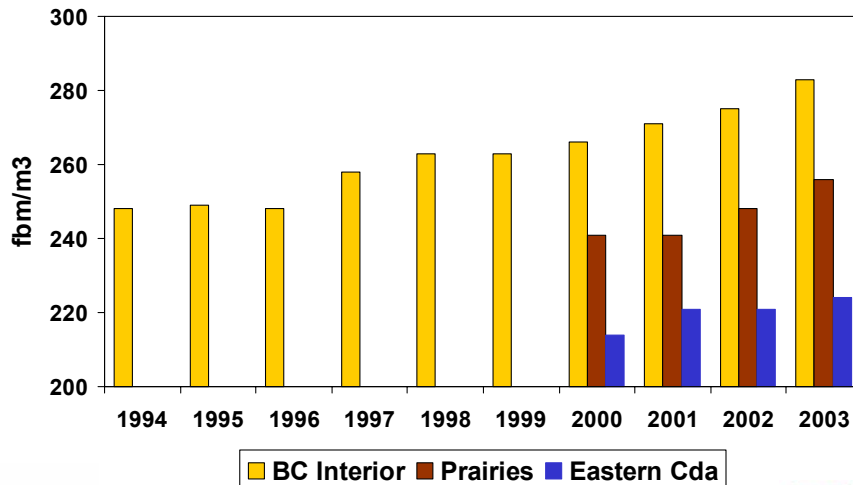
1994 248

1999 263

2003 283

LRF Regional Comparison

The BC edge



SLIDE 13



SLIDE 13

❖ And we are outstripping the rest of the country

	<u>BC Int.</u>	<u>Prairies</u>	<u>BC</u>
2000	266	241	211
2001	271	241	221
2002	275	248	221
2003	283	250	224

➤ *Now despite these efforts we face another huge challenge called Trade Litigation...*

Trade Litigation CVD/ADD deposits

Huge external driver

Cash Deposits (USD)

	2002 ⁽¹⁾	2003	2004 ⁽²⁾	Total
BC	352	635	241	1,224
Rest of Canada	276	1,192	189	961
Total	628	1,127	430	2,185

(1) May 22nd to December 31st

(2) January 1st to April 30th



SLIDE 14



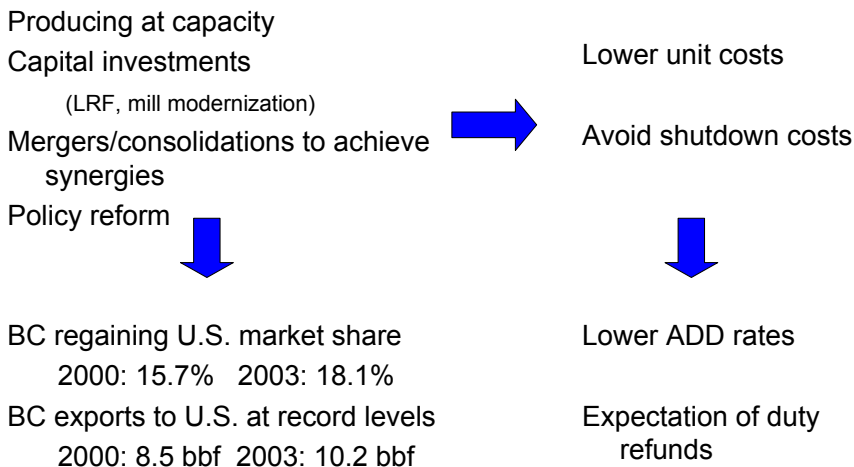
SLIDE 14

- ❖ We have paid \$2.2 billion in U.S. dollars in the form of unfairly collected CVD and ADD cash deposits
- ❖ Majority is from B.C.

➤ *In response...*

The BC Response Managing for anti-dumping

New paradigm



SLIDE 15



SLIDE 15

- ❖ Essentially we have invented a new production and operating paradigm
- ❖ If anything these external and internal forces have made us leaner and more efficient.
- ❖ In summary, the B.C. interior industry is strong and resilient and will continue to play a huge role in the economic future of the province