

# Project Grizzly

**Gate 2 Review**  
**February 16, 1999**

**EXHIBIT**

CV 03-0551 PA

**2493**

## Discussion Outline

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- Progress with Seller
- Book Value of Assets
- Valuation
  - Case Description
  - Additional Value Opportunities
  - Components of Value
  - Grizzly Price / ROI
  - Key Bets / Sensitivity
  - Risks
- Potential Competing Bidders
- Deal Strategy
  - Preliminary Bid
  - Negotiation Plan
- Phase III Planning
  - Due Diligence
  - Integration
  - Schedule
  - Communication Messages

- Tony Haight is responsible for the sale as in 1995
- Our dealings have been through Wayne Kidd (CMH President)
  - Data has been limited to 1998 performance & 1999 plan
  - Exclusivity has been slow coming
- We've been clear on three points:
  - Need exclusivity prior to preliminary bid
  - We will need to be dealing with Advent for the bidding
  - Due diligence will be thorough

**CDN \$MM**  
**as of 11/98****Long-term Assets****Fixed**

Land	\$2.8
Buildings & Land	20.6
Less Accum. Depreciation	<u>(8.3)</u>
<b>Net Book Value</b>	<b>\$15.1</b>

**Deferred**

Organization & Deferred (net)	<u>\$2.8</u>
<b>Total Long-term Assets</b>	<b>\$17.9</b>

**Current Assets & Liabilities**

A/R, Prepaid, Inventories	\$ 6.5
A/P, Accrued Liabilities	\$ 2.3

*Note: Current portion of LT debt & Interest \$20.8*

**Description of three cases:**

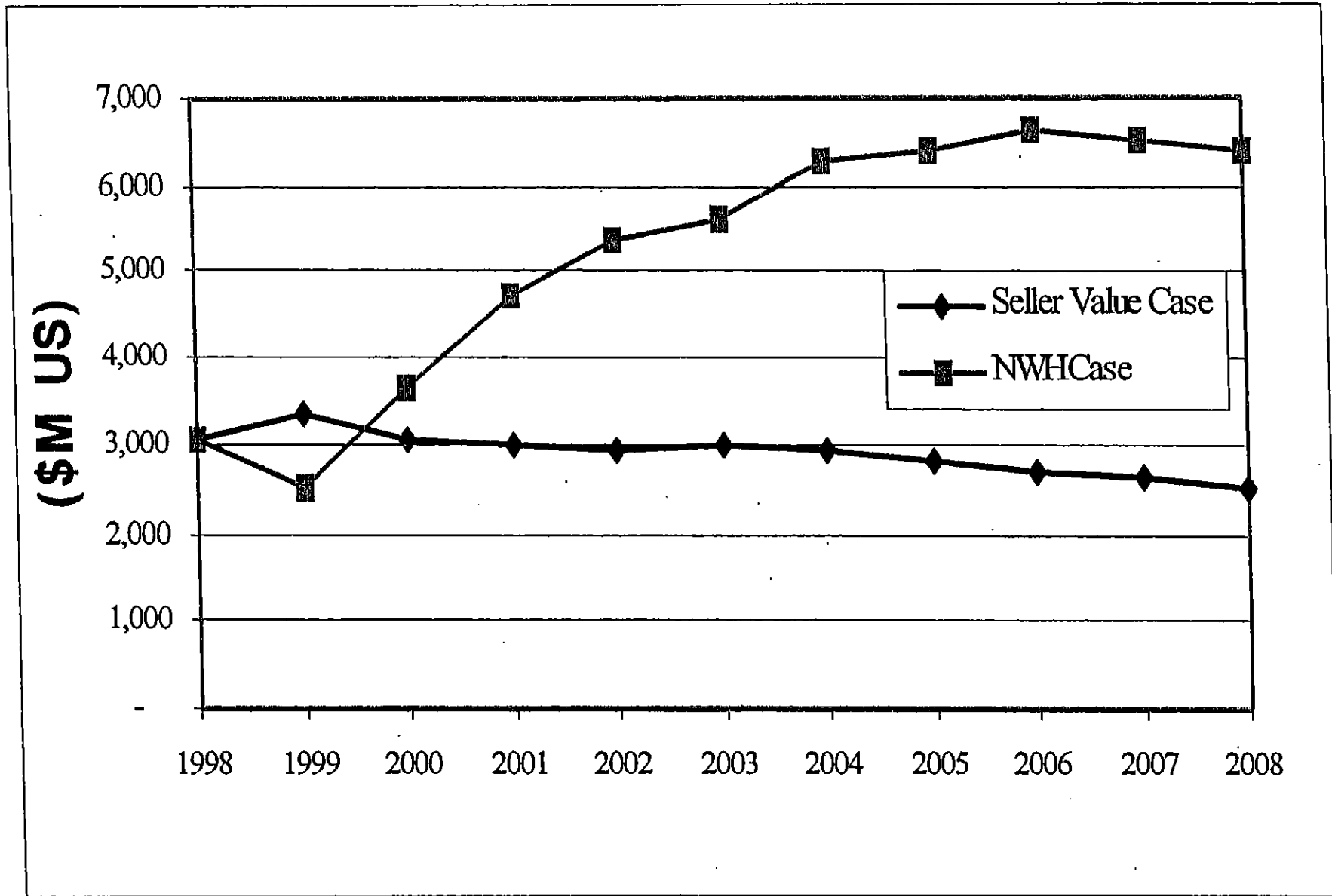
- 1) Seller Value                      Current performance for 10 years
- 2) NWH Ownership                  Equivalent mill P&L with improved volume, recovery, and mix
- 3) Value to Weyerhaeuser        Includes preservation of commission profits and system benefits

**Mill Pro-Forma Assumptions**

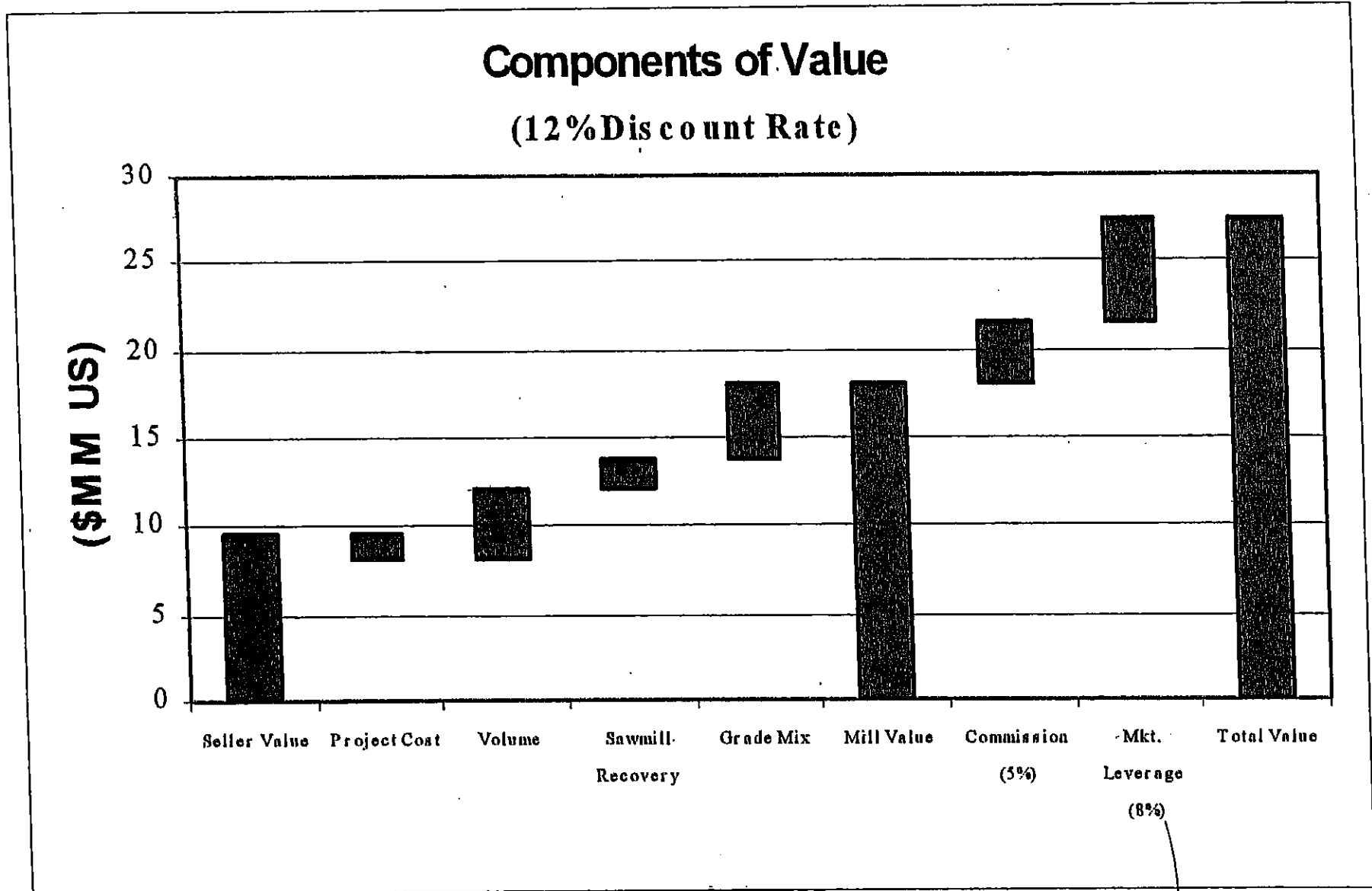
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>...</u>	<u>2008</u>
<b>Volume (mmbf)</b>						
Seller Value	35.5	38	38	38		38
NWH Ownership		35	38	40		45
<b>KD Gross Realization (1999\$)</b>						
Seller Value	\$686	\$688	\$688	\$688		\$688
NWH Ownership		688	716	730		745
<b>Lumber Recovery</b>						
Seller Value	1.21	1.21	1.21	1.21		1.21
NWH Ownership		1.21	1.23	1.25		1.29
<b>Chip Recovery</b>						
Seller Value	.83	.87	.87	.87		.87
NWH Ownership		.86	.86	.86		.86
<b>Capital</b>						
Seller Value	0	0	0	0		0
NWH Ownership	0	\$650M	\$1,200M	0		0

## **The Total Value to Weyerhaeuser case includes...**

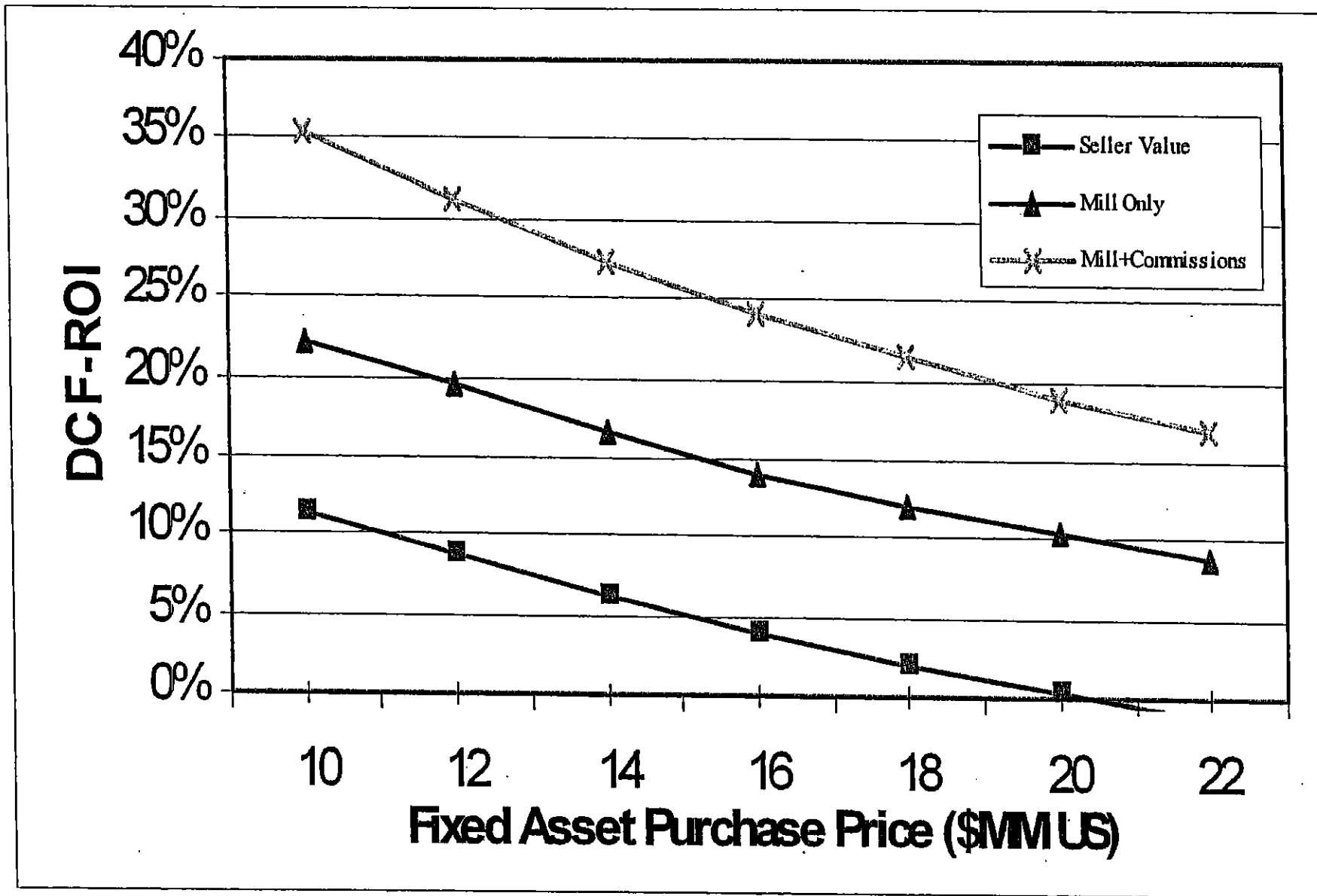
- **Retention of Commission Sales Profits (Included in Valuation)**
  - Currently earning 12-13% on CMH sales
    - 5% direct commission
    - 7-8% market leverage
  
- **Potential System Benefits (Not included in Valuation - to be verified through due diligence)**
  - Move finishing to Sedro Woolley
    - Estimated capital cost of \$750M
    - Expected cost savings of \$50/mbf
  
  - Source wood from B.C. into Washington Mills
  
  - Conifer Sourcing



For comparison purposes, "NWH Case" does not include additional earnings associated with commissions.



No "System Value" has been included at this point (moving finishing operation, sourcing Washington mills, Softwood sourcing)



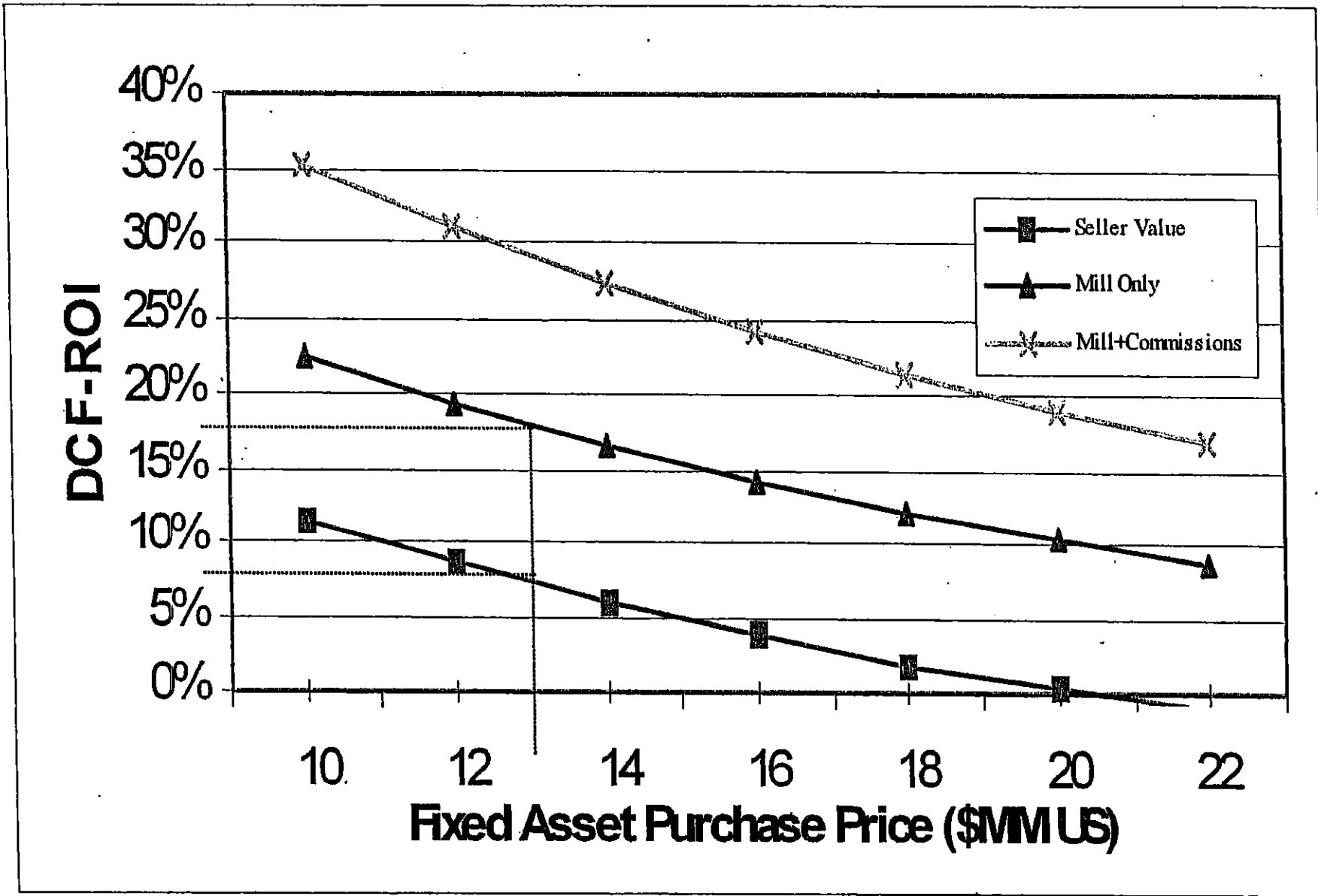
## Value Impact (NPV \$MM US)

	12%	15%	18%
<b><u>Seller Performance (assuming a \$13 MM US purchase)</u></b>	<b>-2.7</b>	<b>-4.0</b>	<b>-5.1</b>
<b>Operating Bets</b>			
\$2.25 MM Capital covers systems needs and process improvement	-1.5	-1.5	-1.6
Can increase volume to 45 mmbf	3.4	2.8	2.4
Can improve recovery from 1.21 to 1.29	1.5	1.3	1.1
Can increase product value through processing efficiencies	4.0	3.5	3.1
	—	—	—
<b><u>Mill Value Under NWH Ownership</u></b>	<b>4.7</b>	<b>2.0</b>	<b>-0.1</b>
<b>Marketing Bets</b>			
5% commission profits	3.6	3.2	2.9
8% profit lift over "gross realization"	5.8	5.2	4.6
	—	—	—
<b><u>Total Value to Weyerhaeuser</u></b>	<b>14.1</b>	<b>10.5</b>	<b>7.5</b>

	<b>Present Value Impact (12%)</b>
We assumed flat real prices for Alder KD Lumber. If prices drop 3% and remain flat...	(\$2.3 MM)
We assumed 1% annual increases in nominal pallet pricing (declining real prices). If prices drop 3% and then continue 1% nominal drop...	(0.3 MM)
We assumed flat real chip prices at \$91US/BDU. If 5% lower...	(0.6 MM)
We assumed Log costs rise at 3% nominal each year. (about 1% real). If 5% nominal growth...	(1.5 MM)

- **Raw material -**
  - **Logging Costs - BC Regulations, non-union logging**
  - **Public Sensitivity**
  - **Ability to export to Washington Mills**
  
- **Environmental Status**
  
- **Union Relations**
  
- **Systems Status**

~~Proposed Indicative Offer - \$13MM US for Fixed Assets~~



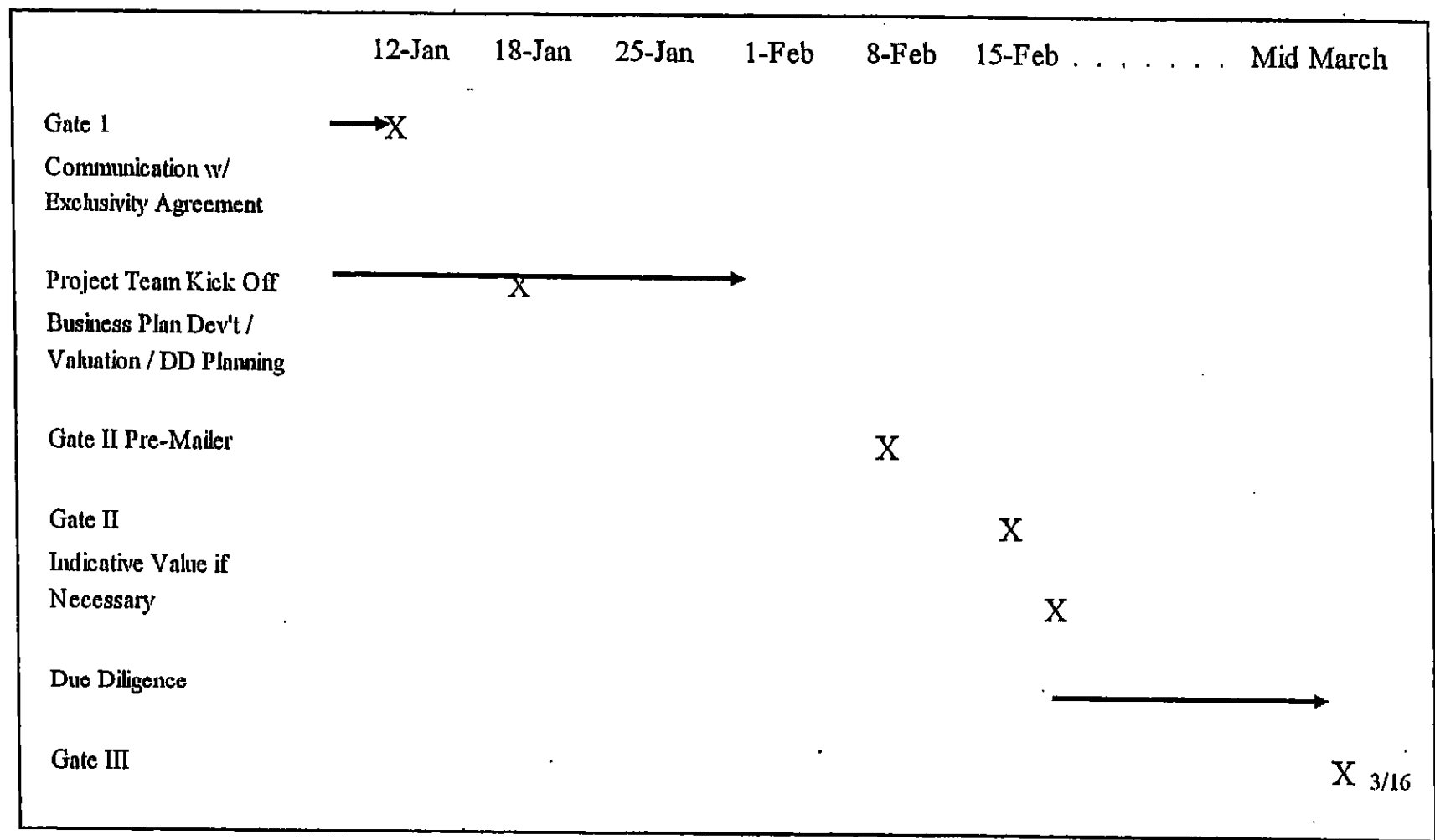
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- Get exclusivity
  - Meet with Advent (probably Tony Haight)
    - Communicate bid and deal structure
  - Due diligence
  - Refine bid
  - Gate 3 (establish negotiation boundaries)
  - Negotiate Definitive Agreement with Advent

Focal points have developed a due diligence work plan and are ready to execute

	<u>Core Team</u>	<u>Support</u>
Raw Material	Del Fisher	Bob Taylor, Ray Norgren
Operations	Jerry Martin	
Human Resources	Jim Tynan	Marilyn Wilfong, Rob Gerelus
Marketing	David Weyerhaeuser	
Financial	Vicki McInnally, Gene Novak	Leo Hassa, Doug Kyle
Environmental	John Zagar	John Gross
Legal	Hugh MacInnes, Claire Grace	
Communication	Eileen Cavenah	Bruce Amundson, Dave Larsen
Systems	Jim DeAngelo	
Safety	Gregg Griffith	
Coordination	Rich Ingersoll	
Project Manager	Bill Boor	
Accountable Manager	Rob Taylor	

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- Streamline organization
  - Raw material management
  - Operations improvement
  - Utilize Sedro Woolley finishing
  - Integrate Sales & Marketing
  - Union Agreement
  - Personnel Indoctrination, education
  - I/T Integration
  - Financial Reporting

We are proceeding on the schedule discussed in Gate 1



Potential Competing Bidders

	Financial Capability	Logistics Leverage	Ability to Improve Operations	Ability to Immediately Market	"System" Opportunity
Georgia Pacific	✓✓			✓	✓
Timber West	✓✓	✓			✓✓
Int'l Timber & Lands (ITL)	✓✓			✓	✓✓
Westwood	✓	✓	✓	✓	✓
Rossi	✓✓			✓	✓✓
McMillan Bloedel	✓	✓✓	✓		
Sauder	✓✓	✓		✓	✓✓
Cascade Hardwood	✓✓	✓	✓✓	✓✓	✓
NWH	✓✓	✓✓	✓✓	✓✓	✓✓

✓

*Advantaged*