

# GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

**Paper and Packaging Monitor**  
August 2011 - Volume 3

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## Introduction

Welcome to the third issue of the *Paper and Packaging Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market value and industry trends for a variety of paper and packaging products. The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. Due to the commodity nature of paper and packaging products, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

The *Paper and Packaging Monitor* relates information covering the pulp, paper, and packaging market, including industry trends, market pricing, and their relation to our valuation process. GA provides our customer base with a concise document highlighting the paper and packaging industries. Please feel free to utilize our contact information shown in this and all *Paper and Packaging Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

## Trends in Recovery Values

Trend Tracker
NOLVs: Consistent to <b>Increasing</b>
Sales Trends: Mixed
Gross Margin: Mixed
Inventory: Mixed
Pricing: Mixed

Net orderly liquidation value (“NOLV”) changes for specific categories and companies varied based on market price, the companies’ ability to reduce or absorb rising costs, and their ability to manage inventory levels with respect to market supply and demand.

In the second quarter of 2011, paper recovery values were consistent or increased up to seven percentage points over the prior year, while recovery value trends for packaging ranged from a decrease of two percentage points to an increase of up to three percentage points.

GA internally tracks recovery ranges for pulp, paper, paperboard and corrugate, resin, and other product categories for paper and packaging manufacturers, wholesale distributors, and retailers, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



# ABOUT GREAT AMERICAN GROUP

Great American Group (“GA”) is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional services firms. In addition to the *Paper and Packaging Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, food, automotive, building materials, and chemicals

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## EXPERIENCE

GA was involved in the liquidations of assets for paper and packaging companies, including the following transactions:

### LIQUIDATIONS

- **Printcrafters, Inc.:** Formerly a commercial printing company with a large paper inventory in various sizes and styles.
- **Colfax Envelope Corporation:** Formerly a manufacturer and distributor of high-quality custom lithographed/offset envelopes for financial services and direct mail companies.
- **Solar Graphics, Inc.:** A printer and supplier of graphic signs including banners, window display films, and screen-printed products.
- **WWF Paper:** Formerly a manufacturer and distributor of printing and writing papers, with more than 100 U.S. and international paper mills.
- **Tye-Sil:** Formerly a leading Canadian provider of gift wrap and accessories.
- **Royal Plastics:** A manufacturer of a variety of custom plastic products.
- **Kemco Plastics, Inc.:** A manufacturer of custom-molded plastic products, serving the packaging industry in addition to the military, aerospace, consumer goods, medical, furniture, automotive, and industrial sectors.
- Others including **Usdan Paper Company, Pandick Press, Target Graphics, Unicover Corp., Wicklander Printing Corp., and Office Max.**

In addition, GA has worked with and appraised numerous manufacturers and distributors within the paper and packaging industries. While our clients remain confidential, they range in scale from smaller, more specialized regional businesses to major global and national industry leaders, and include the following sampling of companies:

### APPRAISALS

- Leading manufacturers and regional distributors of premium, writing, text, cover, and specialty papers in a variety of colors, weights and finishes; durable, saturated, and coated base papers for a variety of applications; pulp; and other wood-based products, including a global forest products company with annual sales over \$3 billion.
- Manufacturers, distributors, and brokers of book publication papers, coated and uncoated freesheet, supercalendared and coated groundwood papers, newsprint, and other fine paper purchased by U.S. book, magazine, and advertising publishers, including companies with more than \$400 million in sales.
- Distributors and printers of sheet-fed paper products such as pressure-sensitive paper and film used in a variety of applications, including inserts, magazines, direct mail, and other print mediums, such as a major North American commercial printer with annual revenues in excess of \$3 billion.
- A leading U.S. manufacturer of printed and unprinted envelopes in various sizes and styles for the merchant/wholesale market, large envelope consumers, and specialty wholesalers, with annual sales over \$500 million.
- Manufacturers and distributors of corrugated containers, containerboard, retail packaging, and packaging products such as point-of-purchase displays, protective packaging materials, and pressure-sensitive labels for a variety of industries, including a global company with annual sales exceeding \$5 billion.
- Manufacturers of flexible packaging products such as specialty bags, sheets, wraps, wrappers, sleeves, and other packaging products for snack food and candy manufacturers, quick-service restaurants, food-service companies, and grocery stores, including manufacturers with annual sales greater than \$300 million.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the paper and packaging industries that we utilize for insight and perspective on recovery values.

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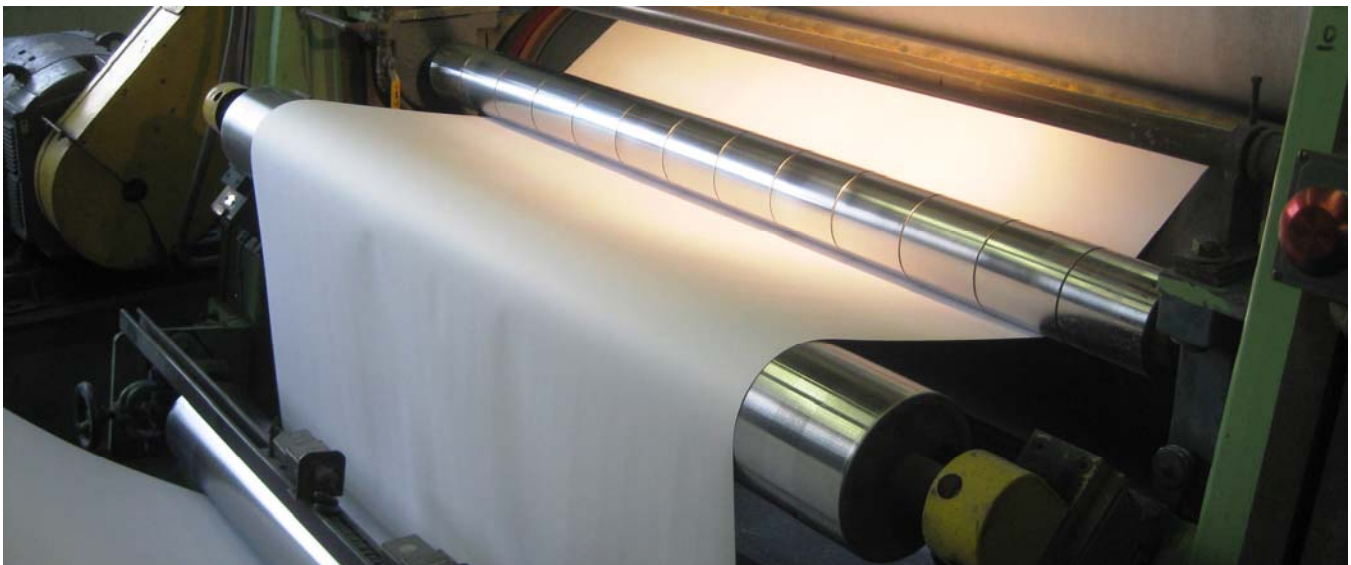
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# OVERVIEW

## PAPER

The paper industry's outlook has improved since the official end of the recession, when reduced demand and depressed market prices hampered the industry. Nonetheless, the industry continues to face challenges as the global economy and consumer demand recover more slowly than many economists had predicted.

Overall, paper industry revenue levels are either flat or decreasing in developed nations, although certain companies were able to generate healthy sales increases. Although demand for paper appears to have reached a saturation point in the U.S. and Europe, emerging markets in other countries provide future growth opportunities. This was illustrated during the recession, when the drop in demand was considerably less in emerging economies compared to developed nations.

Emerging economies also have the potential to cut into the paper industry market share of developed nations. China poses the biggest threat due to its advantageous lower labor and regulatory compliance costs in addition to subsidies that support state-owned enterprises.

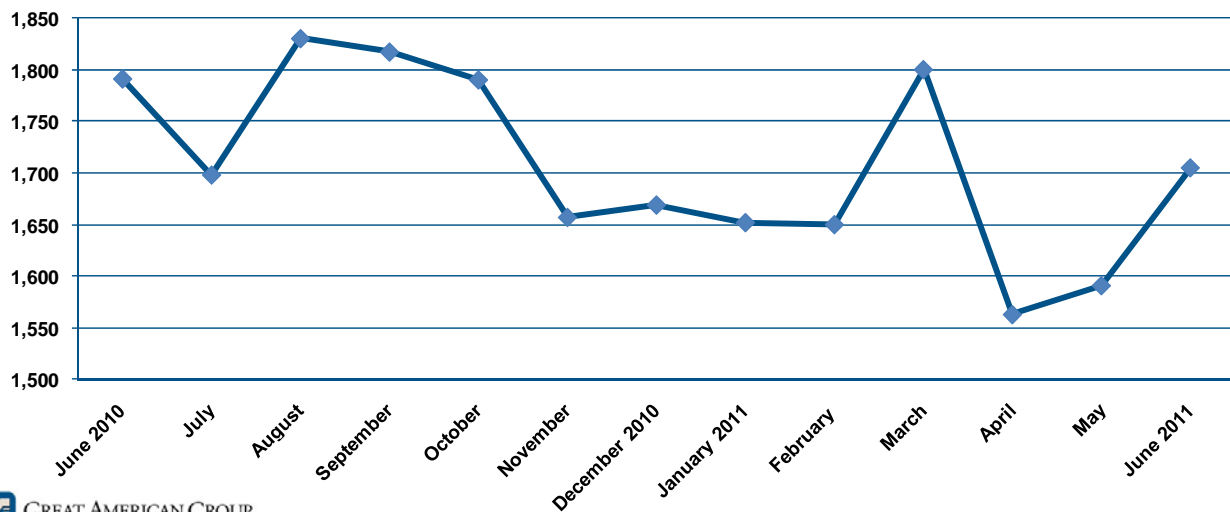
The paper industry demonstrated slight improvements during the first few months of 2011 as the economy continued to recover. However, industry experts say the improvement was driven by a rebalancing of inventory levels, and the trend in the second half of 2011 should prove to be a more accurate demand indicator.



According to the American Forest & Paper Association, total printing and writing paper shipments, an indicator of overall industry demand, decreased approximately 5% in June 2011 compared to June 2010. However, shipments increased versus May 2011.

Printing and writing paper grades are used for newspapers, magazines, catalogs, books, commercial printing, business forms, stationary items, copying, and digital printing. These paper grades represent approximately one-third of the paper market.

**Printing-Writing Paper Shipments  
(Tonnes in 000s)  
June 2010 Through June 2011**



# OVERVIEW

## PACKAGING

U.S. corrugated box shipments slowed in April and May before rebounding in June. U.S. shipments totaled 32.1 billion square feet in June 2011, a decline of 0.1% compared to June 2010, according to the Fibre Box Association.

The recent decrease in total containerboard shipments is due to a slowdown in domestic consumption and comes on the heels of large increases in 2010, which saw a resurgence of consumption compared to 2009. U.S. containerboard imports were down 7.6% for the first half of 2011 compared to the first half of 2010.

U.S. containerboard production for export, primarily kraft linerboard, totaled 348,000 tons in June, up from 327,000 tons in May and 9.4% higher than June 2010. Year-to-date containerboard exports were up 5.5% from the first half of 2010.

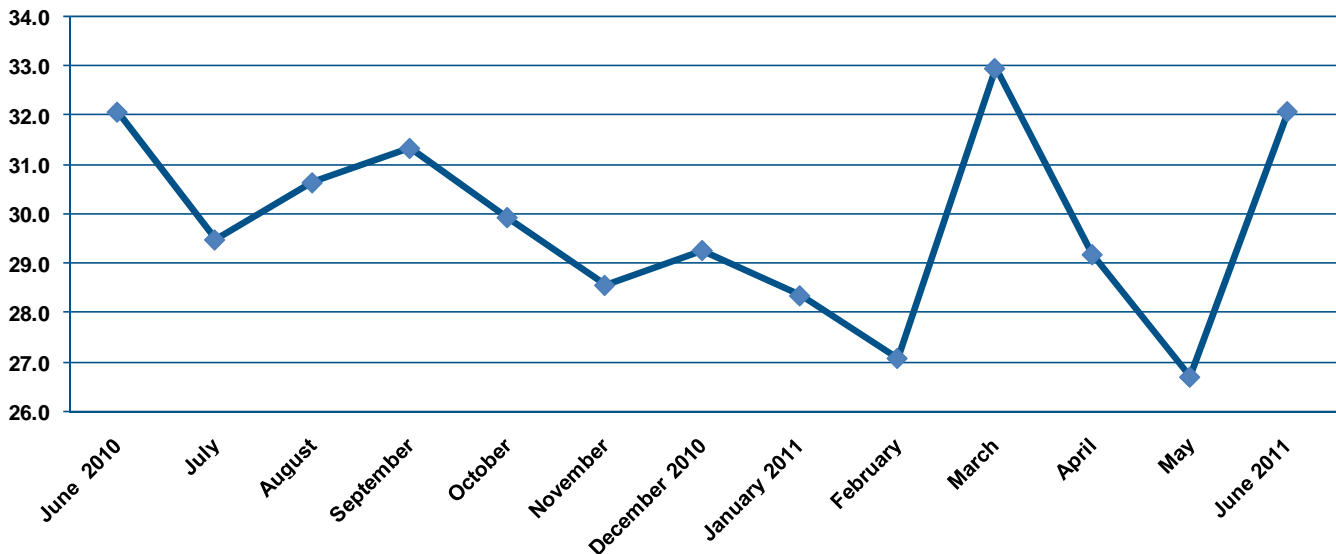
PET resin is used to manufacture plastic bottles. The PET market may have already seen the height of its demand for 2011, as beverage sales typically peak in the summer months.

Over the long-term, however, the outlook for plastic resins appears strong. The volume share for plastic packaging continues to increase as it further encroaches on paper applications. Plastic demand in competitive packaging markets is expected to increase 2.3% annually through 2014.



The market for plastic packaging includes flexible and rigid containers, bottles, wraps, bags, pouches, and other packaging produced from resins such as polyethylene (“PE”), polyethylene terephthalate (“PET”), high-density polyethylene (“HDPE”), polyvinyl chloride (“PVC”), low-density polyethylene (“LDPE”), polypropylene (“PP”), and polystyrene (“PS”).

### Box Shipments (Square Feet in Billions) June 2010 Through June 2011



# RECENT APPRAISAL TRENDS

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## PAPER

Paper manufacturers continue to contend with unstable demand as well as high production and transportation costs. However, producers that were able to effectively trim their costs and manage their inventory levels fared reasonably well. For the second quarter of 2011, paper recovery values ranged from stable to up seven percentage points versus the prior year due to positive changes in gross margin and weeks of supply compared to 2010.

GA has worked with major national paper producers and distributors that offer a broad range of paper products. Inventory categories that represent paper in uncommon colors or grades typically recover lower on cost than more basic categories, unless tied to a customer order or contract.

## PULP

Appraisals valuing pulp inventory are generally dependent on market prices, as pulp is commodity in nature, with market prices often driven by paper demand. In these appraisals, the inventory at cost is compared to spot or contract market prices as well as competitors' inventory at cost.

For appraisals conducted in the second quarter of 2011, recovery values for pulp remained relatively flat or increased up to two percentage points versus the previous year. The overall stability was due to minimal changes in pulp market prices. However, GA recognizes that recovery values could be impacted by more recent declines in pulp market prices. Recovery values for pulp take into consideration discounts applied based on demand, availability, and the types of customers.

## CHIPS/WOOD

Recovery values for chips and wood have either held steady or increased up to two percentage points year-over-year. These goods are readily available from a wide variety of vendors in North America, and therefore achieve lower recovery values due to the discounts applied to encourage purchases. Chips and wood are also subject to market price fluctuations.

## PACKAGING

The packaging industry has experienced volatile demand, with box shipments fluctuating sharply in the first half of the year. In addition, packaging producers continue to face high costs for chemical raw materials, as well as high energy costs.

Recovery values for packaging products ranged from a decrease of two percentage points to an increase of up to three percentage points year-over-year. Negative recovery values were primarily driven by adverse changes in gross margin and weeks of supply for the companies that were unable to successfully pass through price increases or manage their inventory levels in line with demand.

GA has conducted multiple appraisals for manufacturers and distributors of corrugated and plastic packaging products, including generic goods as well as custom packaging made to customer specifications or bearing customer logos.

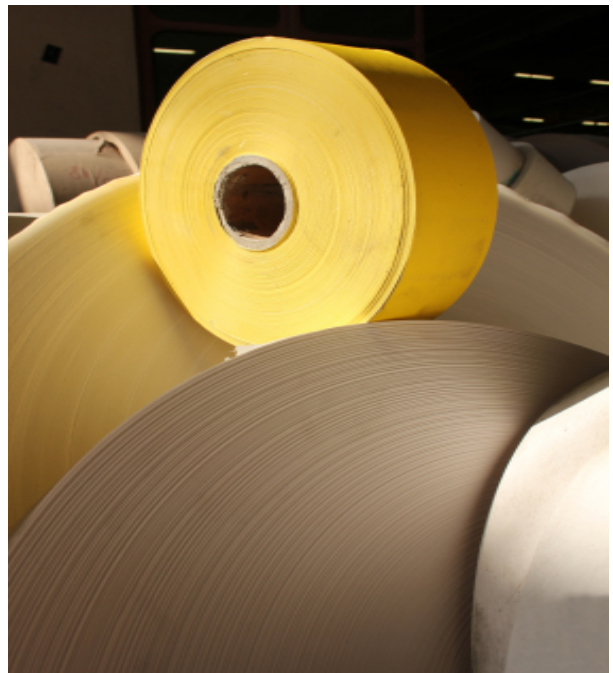
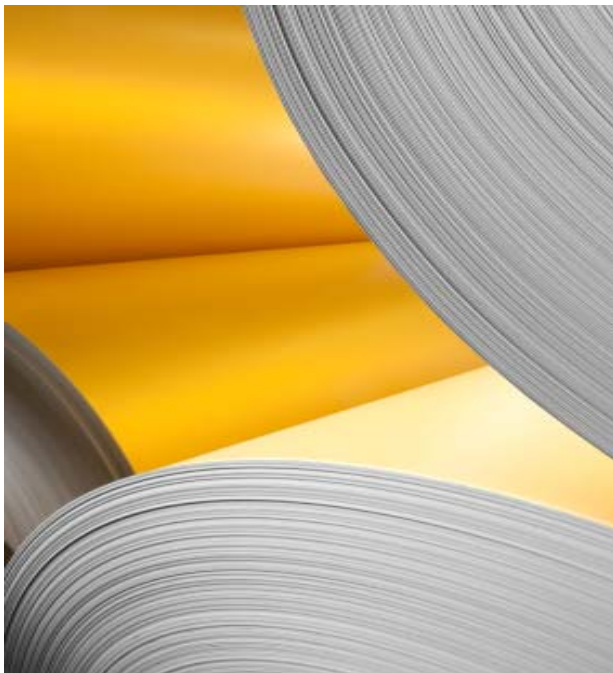
GA considers key factors when developing recovery values for these custom items, including contract terms, stocking agreements, lead times for customers to secure an alternative supplier, and whether the company is the sole supplier of inventory to its customers.

Plastic packaging manufacturers may maintain pricing contracts with customers, which may allow for the pass-through of resin costs or establish a fixed dollar-per-unit of gross margin. In general, value changes correlate with changes in market prices.

Recovery values for plastic resins were either flat or increasing up to two percentage points year-over-year due to higher overall resin market prices in 2011 versus 2010. In the valuation of plastic resins, GA compares the market price or acquisition price per unit of the inventory to the cost per unit.

# MONITORING POINTS

Monitoring Point	Impact
<p>Monitor paper and packaging market conditions.</p>	<p>A downturn in the paper or packaging manufacturing industry, or in customer markets such as publishing, food service, and consumer goods, could have a negative impact on sales. In addition, increased competitive pricing pressures, and/or a decrease in market share could have a negative impact on sales, gross margin, and weeks of supply.</p>
<p>Monitor RISI and other industry-reference paper/packaging market prices, <i>ICIS</i> and other industry-reference plastic market prices, acquisition costs, and gross margin.</p>	<p>An increase in market price and/or acquisition costs without a corresponding increase in product selling prices would decrease the gross margin. The decline of market prices below the inventory at cost would have a negative impact on recovery values.</p>
<p>Monitor supplier and customer contracts, as well as returns, accounts receivable activity, and open sales orders.</p>	<p>A loss or cancellation of supplier or customer contracts could decrease sales, increase weeks of supply, increase the level of obsolete inventory, and have a negative impact on recovery values.</p>

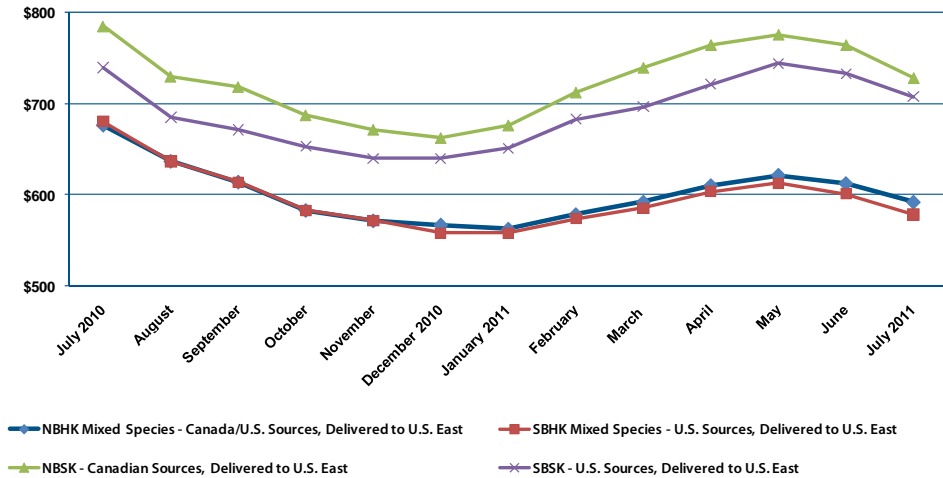


# PRICING TRENDS

## PULP

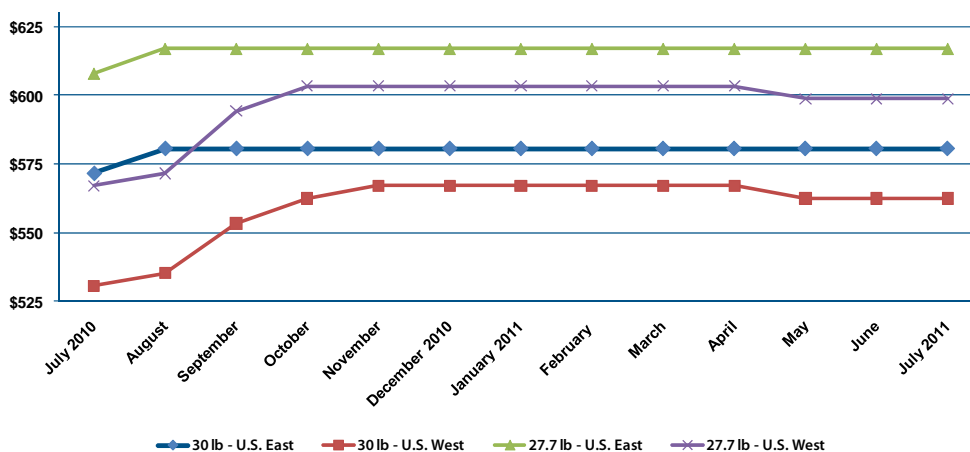
After rebounding in the first quarter of 2011, pulp market prices began to slide downward during the summer as buyers clamored for lower prices. Northern bleached hardwood kraft (“NBHK”) spot prices were discounted nearly 25% off of July’s effective list price. The oversupply of hardwood pulp has contributed to eroding prices for this pulp. Softwood pulp prices are also slated to decline further, as producers announced additional price decreases effective for August.

**Pulp**  
Average Spot Market Price Per Ton  
July 2010 Through July 2011



RISI, Inc. (“RISI”) reported the U.S. spot price for northern bleached softwood kraft (“NBSK”) delivered to the U.S. East and Midwest, which serves as a benchmark for other pulp prices, fell \$35 per ton to a range of \$760 to \$810 per ton in early August versus the two weeks before. NBSK prices slipped due to a sudden decline in demand from China, which slowed exports to China and resulted in increased supplies for domestic buyers who sought cheaper pulp.

**Newsprint**  
Average Market Price Per Ton  
July 2010 Through July 2011



## PAPER

Despite recent declines in pulp market prices, paper companies continue to face high crude oil and retail gas prices, which affect production and transportation costs.

The prices for many paper grades have remained relatively steady, although some manufacturers are unsuccessfully attempting to increase prices.

U.S. newsprint demand remains weak amidst floundering newspaper consumption, with June shipments down 8.3% year-over-year. Several newsprint producers, including top producer Abitibi Bowater, announced price increases set for July, but the planned increases are now dead in the water due to weak market fundamentals, as supply exceeds demand. However, producers hope for an opportunity to raise newsprint prices in order to offset their rising costs.

# PRICING TRENDS

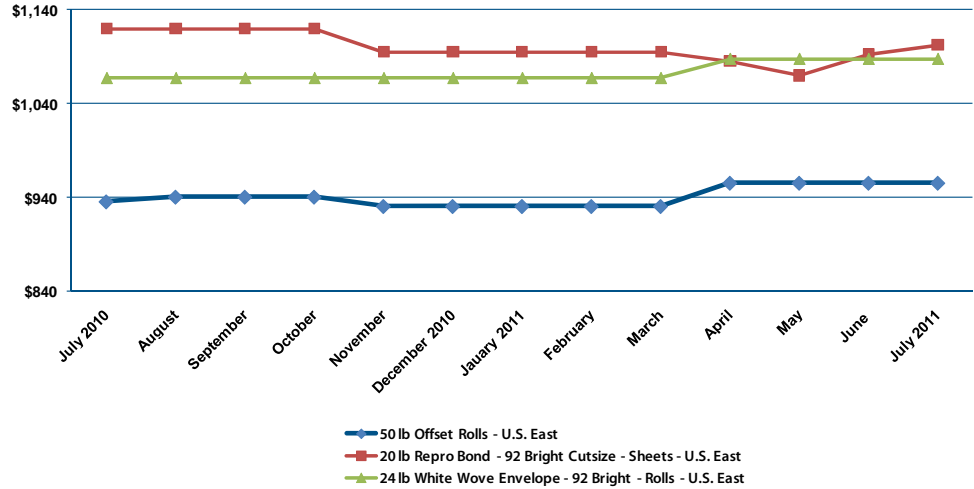
## PAPER

While uncoated mechanical and uncoated freesheet market prices remained stable in the first quarter of 2011, certain grades have recently reflected slight fluctuations.

Repro bond paper prices increased approximately \$5.00 to \$15.00 per ton in July, or 1.6% year-over-year. Despite weak demand, the price hike was supported by supply cuts, lower inventory levels, and beneficial trades.

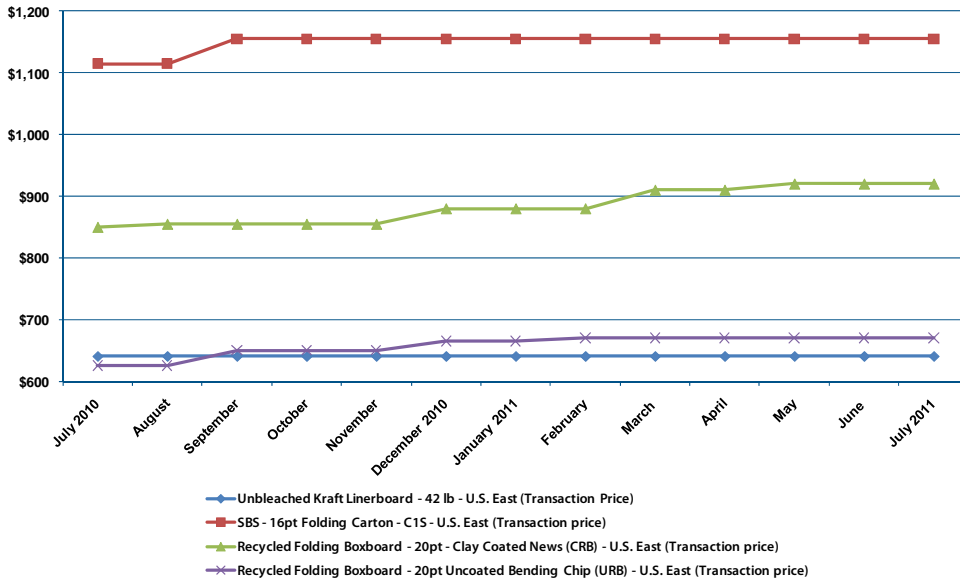
A planned June price increase for offset papers was only partially implemented due to weak demand and competition from coated freesheet suppliers that also offer uncoated rolls. A continued drop in pulp market prices may begin to translate into flat or lower paper prices as well.

**Uncoated Paper**  
Average Spot Market Price Per Ton  
July 2010 Through July 2011



## PAPERBOARD AND CONTAINERBOARD

**Paperboard and Containerboard**  
Average Market Price Per Ton  
July 2010 Through July 2011



Domestic market prices for paperboard and containerboard remained relatively stable or increased slightly in the summer months, although certain manufacturers are seeking to implement price increases to help offset rising costs for chemicals, fiber, and freight.

Caraustar Industries, Inc. announced a price hike of \$40 per ton for clay-coated paperboard grades effective September 12, 2011, while Fusion Paperboard Connecticut, LLC indicated an identical price increase for coated recycled board effective September 5.

# PRICING TRENDS

## RESIN

The prices of PET resin, which is used to manufacture plastic bottles, decreased \$0.02 per pound in May, June, and July 2011. Prices are expected to decrease further until prices for the paraxylene feedstock strengthens, according to the Plastics News Global Group. Prices for PE and PP have also decreased over the summer.

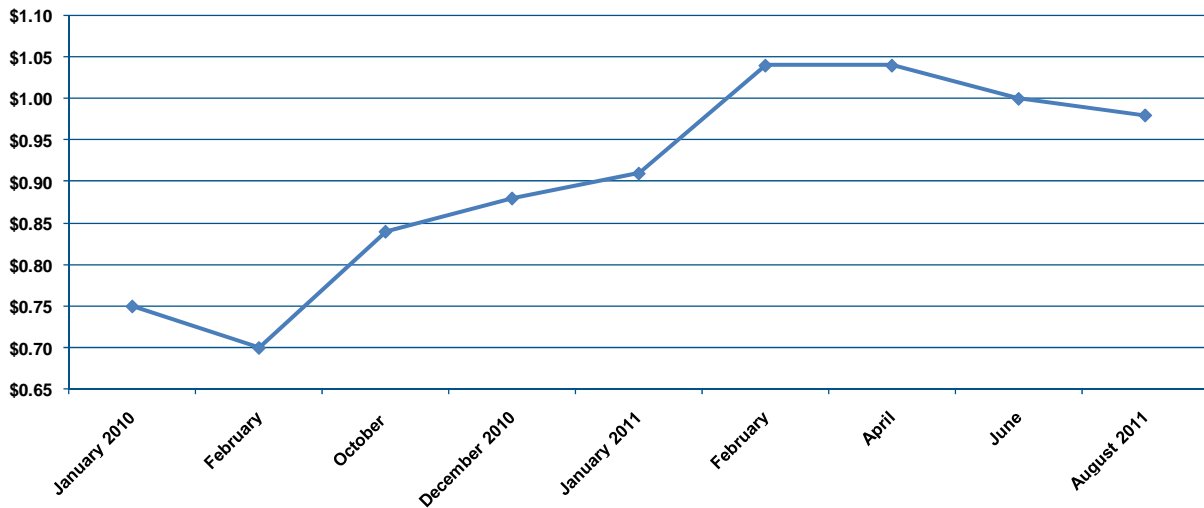


After increasing in price from February through April, domestic PE prices remained relatively flat in May. In June, an overabundance of supply, soft demand, and slight decreases in petroleum pricing caused polyethylene prices to fall slightly, though not enough to offset the increases experienced from January through April.

*Plastics News* reported average selling prices for HDPE, LDPE, and linear LDPE decreased \$0.03 per pound from early July through early August as a result of a seasonal summer slowdown, an inventory buildup, and economic factors. However, major producers of PE proposed price hikes of \$0.05 per pound for August, with Dow Chemical Co. also announcing a price increase of \$0.06 per pound for September.

PP market prices remain volatile. According to *Plastics News*, polypropylene prices had increased nearly \$0.37 per pound between January and May 2011. However, average selling prices per pound for the resin experienced a sharp \$0.15 drop in June, followed by a \$0.04 decrease in July due to lower demand.

**PET Bottle Resin  
Annual Volumes Greater Than 20 Million Pounds  
Average Market Price Per Pound  
January 2010 Through August 2011**



# REFERENCE SHEET

## PPI Average Pulp Spot Prices (\$ per Ton) - % change from previous month

	May 2011	June 2011	July 2011
NBHK Mixed Species - Canada/U.S. Sources, Delivered to U.S. East (\$590 to \$620/ton)	2%	(1%)	(3%)
SBHK Mixed Species - U.S. Sources, Delivered to U.S. East (\$580 to \$615/ton)	2%	(2%)	(4%)
NBSK - Canadian Sources, Delivered to U.S. East (\$730 to \$775/ton)	1%	(1%)	(5%)
SBSK - U.S. Sources, Delivered to U.S. East (\$710 to \$740/ton)	2%	(2%)	(3%)

## PPI Newsprint Paper Market Prices (\$ per Ton) - % change from previous month

	May 2011	June 2011	July 2011
Newsprint 30lb (48.8g) - U.S. East (\$580/ton)	0%	0%	0%
Newsprint 27.7lb (45g) - U.S. East (\$615/ton)	0%	0%	0%
Newsprint 27.7lb (45g) - U.S. West (\$600/ton)	(1%)	0%	0%
Newsprint 30lb (48.8g) - U.S. West (\$560/ton)	(1%)	0%	0%

## PPI Average Uncoated Paper Market Prices (\$ per Ton) - % change from previous month

	May 2011	June 2011	July 2011
50lb (70g) Offset Rolls - U.S. East (\$955/ton)	0%	0%	0%
20lb (80g) Repro Bond 92 Bright Cutsheet Sheets - U.S. East (\$1,100 to \$1,095/ton)	(1%)	2%	1%
24lb White Wove Envelope - 92 Bright - Rolls - U.S. East (\$1,090/ton)	0%	1%	0%

## REFERENCE SHEET

### PPI Average Paperboard and Containerboard Market Prices (\$ per Ton) - % change from previous month

	May 2011	June 2011	July 2011
Unbleached Kraft Linerboard - 42lb - U.S. East (Transaction Price) (\$690/ton)	0%	0%	0%
SBS - 16pt Folding Carton - C1S - U.S. East (Transaction Price) (\$1,155/ton)	0%	0%	0%
Recycled Folding Boxboard - 20pt - CRB - Clay coated news - U.S. East (Transaction Price) (\$920/ton)	1%	0%	0%
Recycled Folding Boxboard - 20pt - URB - Uncoated Bending Chip - U.S. East. (Transaction Price) \$670/ton)	0%	0%	0%

### PET Average Spot Market Prices, Annual Volumes Greater than 20 Million Pounds (\$ per Pound) % change from previous reported month

	February 2011	April 2011	June 2011	August 2011
PET Bottle Resin (\$0.90 to \$1.05/lb)	3%	14%	(4%)	(2%)

### HDPE Average Spot Market Prices, Annual Volumes Greater than 20 Million Pounds (\$ per Pound) % change from previous reported month

	April 2011	May 2011	July 2011	August 2011
HDPE Blow Molding Copolymer (\$0.95 to \$1.00/lb)	2%	6%	(3%)	(3%)