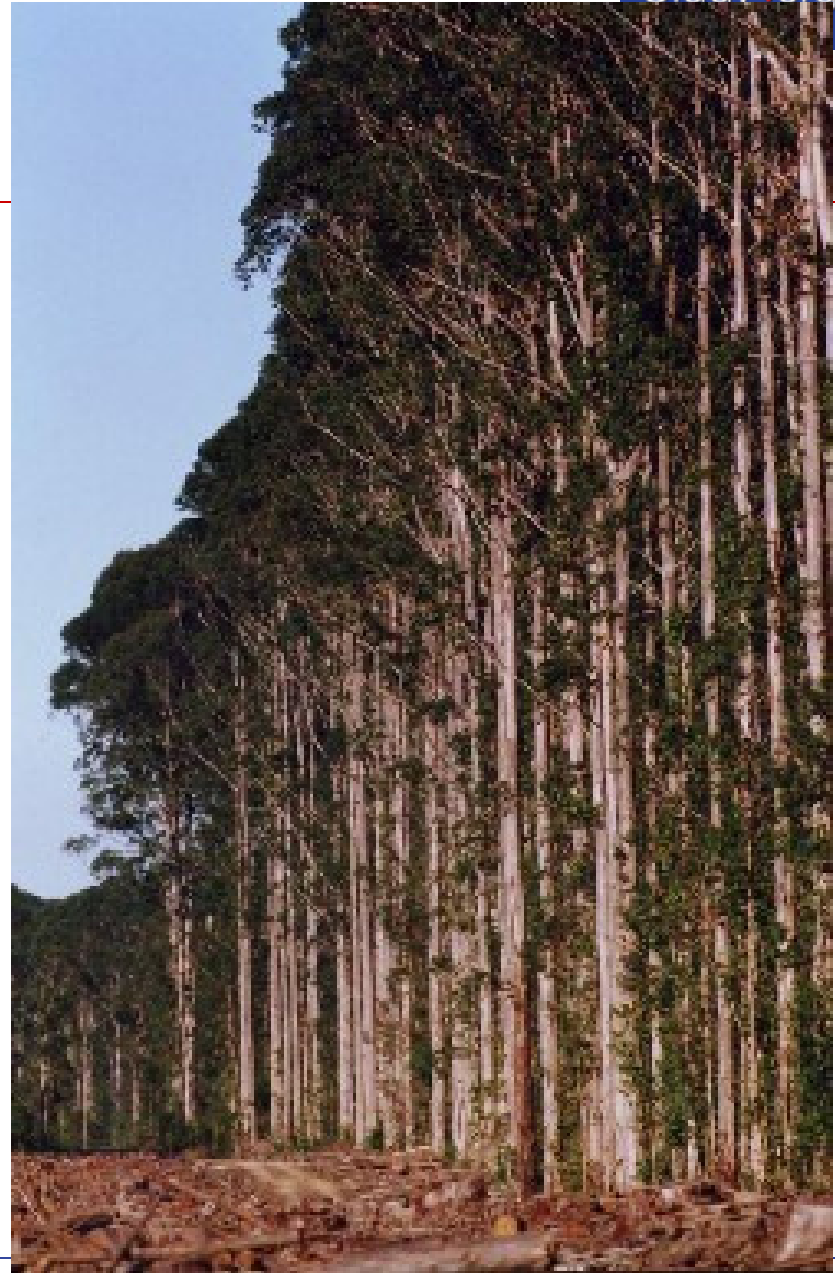


## Tropical Paper Products

- ❑ A private equity group is considering buying a share of Tropical Paper Products
- ❑ Which of these valuation methods are valid?
- ❑ What changes would you make to the computations?
- ❑ What valuation range would you suggest?



**Valuation Analysis of Tropical Paper Products Co.  
Publicly -Traded Comparable Companies**

*(Currencies in millions, except per share data)*

Company	Currency	Share Price 11/17/06	% of 52- week High	Price Per Share		Market Value of Equity	Enterprise Value	Enterprise Value			
				2006 EPS	2007 EPS			LTM Revenue	LTM EBITDA	2006E EBITDA	2007E EBITDA
Bowater	USD	\$51.4	\$0.9	\$16.9	\$7.6	\$2,715.0	\$4,432.0	\$2.1	\$9.2	\$6.5	\$4.5
Norske Skog	NOK	\$258.4	\$0.8	\$6.9	\$5.8	\$13,278.0	\$44,625.0	\$1.4	\$7.3	\$6.1	\$5.6
Abillibi	CAD	\$14.0	\$0.7	\$16.4	\$6.6	\$6,144.0	\$12,075.0	\$1.8	\$9.4	\$8.1	\$4.9
Stora Enso	FIM	\$9.0	\$0.5	\$5.6	\$5.6	\$8,356.0	\$16,220.0	\$1.2	\$5.2	\$4.6	\$4.0
Holmen	SEK	\$244.5	\$0.7	\$8.6	\$8.9	\$22,508.0	\$24,894.0	\$1.7	\$6.7	\$5.8	\$5.6
UPM	EUR	\$31.3	\$0.7	\$8.2	\$8.4	\$8,257.0	\$10,511.0	\$1.2	\$5.5	\$3.7	\$3.5

<b>High</b>	<b>\$16.90</b>	<b>\$8.90</b>			<b>2.1</b>	<b>9.4</b>	<b>8.1</b>	<b>5.6</b>
<b>Median</b>	<b>\$8.40</b>	<b>\$7.10</b>			<b>1.6</b>	<b>7.0</b>	<b>6.0</b>	<b>4.7</b>
<b>Mean</b>	<b>\$10.43</b>	<b>\$7.15</b>			<b>1.6</b>	<b>7.2</b>	<b>5.8</b>	<b>4.7</b>
<b>Low</b>	<b>\$5.60</b>	<b>\$5.60</b>			<b>1.2</b>	<b>5.2</b>	<b>3.7</b>	<b>3.5</b>

**Valuation Analysis of Tropical Paper Products Co.  
Comparable M&A Transactions in Newsprint**

<b>Acquiror</b>	<b>Target</b>	<b>Mills</b>	<b>Transaction Value</b>	<b>Annual Production</b>	<b>Transaction Value / Annual Production</b>
Abitibi-Consolidated	Stone Container	Snowflake, AZ	\$275,000,000	287,000	\$958
Donohue Industries	Champion International	Sheldon, TX Lufkin, TX	\$685,000,000	874,139	\$784
Durango Group	Pipsa-Mex	Pronapade, MEX Mexpape, MEX Tuxapec, MEX	\$325,000,000	397,482	\$818
Southeast Paper	Smurfit Newsprint	Newberg, OR	\$295,000,000	361,350	\$816
Papier Masson (PML)	Noranda	Quebec, ONT	\$190,000,000	210,000	\$905

<b>High</b>	<b>\$958</b>
<b>Median</b>	<b>\$818</b>
<b>Mean</b>	<b>\$856</b>
<b>Low</b>	<b>\$784</b>

## Valuation Analysis of Tropical Paper Products Co.

### WACC Analysis - Pulp & Paper Companies

#### Macroeconomic Assumptions

Risk Free Rate	5.76%	Historical S&P500 Return	13.2%
Projected Target Tax Rate	35.0%	Estimated Market Equity Risk Premium	8.0%

#### Industry Beta Analysis

Comparable Companies	Projected Levered Beta	Net Debt/Market Cap.	Total Debt/Market Equity	Projected Tax Rate	Unlevered Beta	Cost of Levered Equity	Cost of Unlevered Equity
Boise Cascade	1.06	51.9%	120.5%	40.0%	0.62	13.6%	10.3%
Georgia-Pacific	1.08	63.1%	171.9%	40.0%	0.53	13.8%	9.7%
International Paper	1.08	40.9%	80.4%	40.0%	0.73	13.8%	11.2%
Mead	0.94	36.5%	80.4%	40.0%	0.63	12.8%	10.5%
Weyerhaeuser	0.92	31.5%	63.3%	40.0%	0.67	12.6%	10.7%
Wiltametta	0.88	23.0%	30.4%	40.0%	0.74	12.3%	11.3%
<b>Average</b>	<b>1.0</b>	<b>41.2%</b>	<b>91.2%</b>	<b>40.0%</b>	<b>0.65</b>	<b>13.2%</b>	<b>10.6%</b>

#### Target WACC Calculation

Optimal Debt/Market Capitalization	Optimal Debt/Equity	Spread to 10-year Treasuries (bp)	Country Risk Premium	Pre_Tax Long Term Cost of Debt	Levered Beta Based on Ave. Unlevered Beta	Cost of Levered Equity	Target Nominal WACC
30.0%	42.9%	175.0	0.0%	7.5%	0.84	12.0%	9.8%
40.0%	66.7%	200.0	0.0%	7.8%	0.94	12.7%	9.7%
50.0%	100.0%	300.0	0.0%	8.8%	1.08	13.8%	9.7%
60.0%	150.0%	400.0	0.0%	9.8%	1.29	15.4%	10.0%
70.0%	233.3%	500.0	0.0%	10.8%	1.64	18.0%	10.3%

#### Notes

- (1) Risk Free Rate = Ten Year Treasury Bond Rate; Source: Wall Street Journal (11/17/00)
- (2) SBBI 2005 Year Book; Valuation Edition; (Ibbotson Associates)
- (3) Assumed to be 35 percent
- (4) Estimated Market Equity Risk Premium = Historical Spread (1928 - 2005) Between 20-Yr Bond and S&P500; □SBBI 2005 Year Book; Valuation Edition; (Ibbotson Associates)
- (5) Source: Barra (5/31/05)
- (6) Unlevered Beta equals Levered Beta / (1 + (Total Debt/Market Value of Equity) \* (1-Tax Rate)). Assumes Beta of Debt equals zero

## Valuation Analysis of Tropical Paper Products Co.

### Discounted Cash Flow Analysis

(\$ in millions)

	Projected FYE, December 31, (1)				
	2007	2008	2009	2010	2011
Sales	\$129.10	\$130.90	\$126.20	\$128.10	\$136.30
EBITDA	21.7	26.2	22.0	23.6	29.1
Less: Depreciation	(14.7)	(11.0)	(8.6)	(6.8)	(7.0)
EBITA	7.0	15.2	13.4	16.8	22.1
Less: Taxes 38%	0.0	0.0	(5.1)	(6.4)	(8.4)
Tax-effected EBITA	7.0	15.2	8.3	10.4	13.7
Plus: Depreciation	14.7	11.0	8.6	6.8	7.0
Plus: Deferred Taxes	0.9	4.2	3.0	1.4	1.3
Less: Capital Expenditure	(9.0)	(11.0)	(5.0)	(5.0)	(5.0)
Less: Changes in Working Capital	(1.8)	(0.7)	0.8	(0.3)	(1.2)
<b>Free Cash Flow</b>	<b>11.8</b>	<b>18.7</b>	<b>15.7</b>	<b>13.3</b>	<b>15.8</b>

Discount Rate	A	B			C		
	Discounted Cash Flows (1) (2007-2011)	PV of Terminal Value as multiple of 2005 EBITDA (2)			Firm Value		
		4.5 x	5.0 x	5.5 x	4.5 x	5.0 x	5.5 x
9.8%	\$57.1	\$81.9	\$91.0	\$100.1	\$139.0	\$148.1	\$157.2
9.7%	\$57.4	\$82.6	\$91.8	\$101.0	\$140.0	\$149.2	\$158.4
9.7%	\$57.3	\$82.3	\$91.4	\$100.6	\$139.6	\$148.7	\$157.9
10.0%	\$57.0	\$81.5	\$90.5	\$99.6	\$138.5	\$147.5	\$156.6
10.3%	\$56.5	\$80.2	\$89.1	\$98.1	\$136.7	\$145.6	\$154.5

(1) Present Values calculated as of December 31, 2006

(2) Discounted 5 years; based on FYE December 31, 2011 EBITDA of \$29.1 million