Institutional Distressed Debt Research

Performance Plus Advisors, Inc. **Distressed Debt Research**
June 4, 2011 **Stephen P. Vlahos**

NEWPAGE GROUP INC.

Cerberus Capital bought MeadWestvaco Corporation's paper business in 2005 for $2.3 billion creating NewPage. NewPage is one of the largest producers of coated and specialty paper in North America. These commercial printing papers are used in magazines and catalogs. NewPage has 20 paper machines and 10 mills located in Canada and the U.S. As of March 31, 2011, these mills had a total annual production capacity of 4.1 million tons of paper, including 2.9 million tons of coated paper, 1 million tons of uncoated paper and 200,000 tons of specialty paper. New page acquired SENA the North American paper operations of Stora Enso Oyj, in December 2007.

NewPage has announced its intent to sell it's business with EMERA to develop a biomass co-generation facility. Emera's subsidiary Nova Scotia Power Inc., will invest $200 million and NewPage will be responsible for construction and operations. The facility will create biomass energy from stem wood. The company uses biomass fuels including black liquor, the liquid that is left after pulp is cooked.

NewPage filed a $800 million IPO in 2008 but withdrew the stock offering in 2010 due to market conditions. The overall demand for paper has dropped with the migration to digital from print. In February 2010, Tom Curley assumed the President & CEO roles. Six months later Cerberus stepped in saying it wanted a new team in place. Tom Curley and Chairman Mark Suwyn resigned, replaced by Robert Nardelli, CEO of Cerberus Operating and Advisory, as Chairman. Robert Nardelli resigned in May 2011.

See Important Disclosures

Recent Results

On May 2, 2011 NewPage announced results for the first quarter of 2011. Net sales were $904 million compared to $817 million in 2010. Gross margin was 5.1 percent compared to (3.9) percent in the first quarter of 2010. Adjusted EBITDA was $85 million. Net loss was $88 million compared to a loss of $175 million in the first quarter of 2010. Annual capital expenditures are expected to be $75 million and annual interest expense of $335 million.

Restructuring

The market is sensing a financial restructuring this year or in 2012. Apollo Global Management LLC and Avenue Capital Group are rumored to hold more than $400 million of NewPage's 10 percent second-lien bonds. Lazard Ltd., FTI Consulting Inc., and the law firm of Dewey & LeBoeuf LLP have been hired to advise NewPage. Appollo and Avenues' position in the second lien debt give them a strong voice in discussions with Cerberus over how to restructure.

LONG TERM DEBT

Revolving credit facility (L + 350)	$95 million
11.375% First lien senior notes due 12/14	$1,688
Floating rate second lien notes due 5/12 (L +625)	$225
10% Second lien notes due 5/12	$805
12% Senior sub notes due 5/13	$199
Capital leases	$151
Current portion of LTD	$1,783
NewPage Holding	
Senior unsecured NewPage Holding PIK (L + 700)	$224
Long Term Debt	$338

NewPage Trading Debt

	Approximate price
NewPage Corporation (11 3/8 due 12/31/2014) NPGP.GL	96 – 97
NewPage Corporation (floating rate due 5/1/2012) NPGP.GB	42 -43
NewPage Corporation (10% due 5/1/2012) NPGP.GD	42 – 43

VALUATION ASSUMPTIONS

EBITDA Projection	$475 million	$435	$400 million
Market Multiple	x 5	X5	x 5
Enterprise Value/Valuation	$2.375 billion	$2.175	$2.0 billion
Less Capital Leases	151 million	151 million	151 million
Less Credit Facility	95 million	95 million	95 million
Value Available for $1.688 billion 1st Lien Bonds	$2.129 billion	$1.929 billion	$1.754 billion
Recovery Expectations 1st Lien Bonds	100%	100%	100%
Value Available for $1.030 billion, 2nd Lien Bonds	$441 million	$241	$66 million
Recovery Expectation 2nd Lien Bonds	43%	23%	7%

NEWPAGE HOLDING
CONDENSED CONSOLIDATED BALANCE SHEETS MARCH 31, 2011
(**Dollars in Millions)**

ASSETS

Cash and cash equivalents	$9
Accounts receivable, net	294
Inventories	551
Other current assets	19
Total current assets	$873
Property, plant and equipment, net of accumulated depreciation of $1,210 as of March 31, 2011 & $1,159 as of December 31, 2010	2,509
Port Hawkesbury biomass project	19
Other assets	102
Total assets	$3,503

LIABILITIES AND EQUITY (DEFICIT)

Accounts payable	204
Other current liabilities	264
Current maturities of long-term debt	1,783
Total current liabilities	$2,251
Long term debt	1,604
Proceeds from NSPI for Port Hawkesbury biomass project	89
Other long-term obligations	528
Commitments and contingencies	

EQUITY (DEFICIT)

Additional paid-in capital	707
Accumulated deficit	(1,373)
Accumulated other comprehensive loss	(303)
Total equity (deficit)	(969)
Total Liabilities And Equity (deficit)	$3,503

SUMMARY AND RECOMMENDATION

NewPage issued $1.7 billion of the 11.375 percent senior notes due December 2014 in 2009 at an OID of 94 %. In February 2010, the Company issued $70 million add on to the 11.375% notes with the same terms. With $335 million in interest expense and $75 million Cap X and declining prospects, Newpage faces a liquidity crisis with expectations of a restructuring or possible Chapter 11 Bankruptcy filing. We rate the 11.375 percent 1st lien bonds due December 2014, current price approximately 96, as "**Neutral**". We would like and expect a more attractive entry price for investors. Our recommendation is based on the senior position these bonds have in Newpage's capital structure and therefore best positioned in the event of a financial restructuring. We would expect that the claim of the senior secured notes in a Chapter 11 filing would include pre and post petition interest. We also rate the 2nd lien floating rate notes due May 2012 and the 10 percent second lien notes due May 2012, currently trading approximately 42, as "**Sell**". Investors in this debt will be speculating that EBITDA will not collapse and that after a reorganization bondholders will receive a higher valuation than the current market. Avoid for now.

Discloser – Certification

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date of the original recommendation.

Neutral: We generally expect "**Neutral**" rated investment returns to deviate plus or minus + or – 20% from the date of the original recommendation.

Sell: We generally expect "**Sell**" rated investments returns to be equal to or greater than minus -20% from the date of the original recommendation.

Analyst Rating Distribution as of 6/1/2011

	Number of Companies	Percent of Total
Buy	3	37%
Neutral	3	37%
Sell	2	26%
Total	8	100%