

# **Performance Plus Advisors, Inc.**

## **Institutional Distressed Debt Research**

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**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.

NewPage has signed an agreement 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 Disclosers**

## 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.

## 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.....	\$95 million
11.375% First lien senior notes due 12/14.....	\$1,688
Floating rate second lien notes due 5/12.....	\$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	\$224
Long Term Debt	\$3387

## **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 (2011)	475 million	500 million
Market Multiple	x 5	x 5
Enterprise Value/Valuation	\$2.375 billion	\$2.5 billion
Less Capital Leases	151	151
Less Credit Facility	95	95
Value Available for \$1.688 billion 1 <sup>st</sup> Lien Bonds	\$2.129 billion	\$2.254 billion
Recovery Expectations 1 <sup>st</sup> Lien Bonds	100%	100%
Value Available for \$1.030 billion, 2 <sup>nd</sup> Lien Bonds	\$441 million	\$ 566 million
Recovery Expectation 2 <sup>nd</sup> Lien Bonds	43%	55%

Analyst recommendations for EBITDA in 2011 range between 500M and 575M with expectations falling.

**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

We rate the 11.375 percent 1<sup>st</sup> lien bonds due December 2014, current price at 96 a **“BUY”**. Our recommendation is based on the senior position these bonds have in the companies capital structure and therefore best positioned in the event of a financial restructuring. We also rate the 2<sup>nd</sup> lien floating rate notes due May 2012 and the 10 percent second lien notes due May 2012, currently trading approximately 42 a trading **“BUY”**. Our target price is 55. Investors in this debt will be speculating that EBITDA will not collapse and that after reorganization bondholders will receive a higher valuation than the current market.

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## Rating System Explanation

Buy: We generally expect “**Buy**” rated investment returns to be greater than or equal to plus +20% from 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	5	60%
Neutral	2	25%
Sell	1	15%
Total	8	100%