



Brascan buys B.C. coastal lumber assets for \$1.4 billion

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Brascan Corp. said Friday it has reached a \$1.4-billion deal to buy U.S.-based Weyerhaeuser Co.'s sawmills and vast coastal timber holdings.

The deal, which Brascan called the worst-kept secret in Vancouver, ends months of speculation over the fate of Weyerhaeuser's coastal assets, which it bought in 1999 from MacMillan Bloedel.

It also marks the beginning of a long-anticipated restructuring of the struggling coastal forest industry, which many observers expect to result in mill closures and job disruptions before it is over.

Weyerhaeuser is one of the largest forest companies operating on the B.C. coast, with 2,300 employees working in operations from Vancouver to the Queen Charlotte Islands.

Brascan already holds an interest in rival Western Forest Products, which has 2,200 employees and vast coastal holdings of its own.

"It's no secret that the entire industry needs to rationalize manufacturing capacity and they won't be exempt from that," Rick Jeffery president of the Coast Forest Products Association, said of Friday's deal.

But Jeffery characterized the injection of \$1.4 billion in new investment by a company like Toronto-based Brascan as a badly-needed vote of confidence in the industry. He called it a "great day" for the province.

"They are highly-motivated to be successful," he said of Brascan. "They buy things and make them work again."

Brascan and Weyerhaeuser announced the long-anticipated deal in a joint news conference at which Brascan Investments president Sam Pollock described the Weyerhaeuser purchase as a "major expansion of our business on the West Coast."

Brascan paid \$1.4 billion for Weyerhaeuser's 258,000 hectares of private Vancouver Island forest lands, rights to 3.6 million cubic metres a year of coastal timber, five sawmills, two remanufacturing plants and \$200 million in working capital.

"This purchase furthers our objective of investing in high quality assets that generate sustainable, long-term cash flows," Pollock said. "The private timberlands that we have acquired are unique in their size, quality and scale and should increase in value over time."

The deal drew praise from Forests Minister Mike de Jong, who said he sees it as part of the coastal restructuring.

"But whether it is the beginning, middle or end, we don't know right now," he said.

He also said the deal will be scrutinized by the government over issues of competition because of Brascan's stake in Western Forest Products.

The United Steelworkers union, which represents most of Weyerhaeuser's 2,300 employees, said it is concerned over job losses.

"When Brascan splits up the coastal group, how many mills will close? How many jobs will be lost? How many logs will Brascan's timber fund export out of the province?" said Steve Hunt, Steelworkers director for Western Canada.

Brascan is primarily a real estate and energy-based company that has only recently been investing in forest lands. It intends to finance the deal in part from its considerable cash assets -- it had \$2.7 billion on the books at the end of the last quarter.

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FIVE REASONS SALE WENT THROUGH

Here's why the sale of Weyerhaeuser's coastal forestlands to Brascan deal makes good business sense:

- The B.C. coast, which produces high-valued specialty wood products, is not part of Weyerhaeuser's long-term strategy and never was when it purchased MacMillan Bloedel in 1999.
- Weyerhaeuser bought the coastal assets with a 66-cent U.S. dollar. It can sell them today for an 80-cent US dollar.
- Western Forest Products, in which Brascan has an 8.9-per-cent stake, can knock \$25 million to \$35 million off operating costs by rationalizing sawmills if it in turn acquires Weyerhaeuser's mills and Crown tenures from Brascan.
- Weyerhaeuser is struggling under a \$10.6 billion US debt load and the sale of its B.C. assets would signal its intent to get its debt under control.
- Brascan, through its Canadian Timberlands Fund, could let investors shoulder the risk of owning private timberlands, while making its money by charging a management fee.

Ran with fact box "Five Reasons Sale Went Through", which has been appended to the end of the story.

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