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## Western Forest Products Ltd. heading for drier ground

Former Doman Industries Ltd. scrambling to offset dwindling world market for green timber

Paul Harris

Having lain dormant for seven years, the lumber drying kilns of coastal operator **Western Forest Products Ltd.** are now being fired up to offset shrinking markets for green hemlock.

The company is restoring the kilns to dry dimension lumber in a bid to augment supplies to markets in the United States and Japan.

"We are doing a lot of work to recognize that although we have a green market, it is just holding in size or slightly shrinking so we need to move into new markets," said president and CEO **Reynold Hert** in an interview, following Western's first annual general meeting since emerging from bankruptcy protection last July. The kilns used to dry green dimension lumber have not been fired up since 1998.

The Japanese market - which is critical for coastal hemlock suppliers - is gradually moving away from green lumber and towards drier products, which are considered more dimensionally stable, said **Barry Ford**, marketing director of the Coast Forest Products Association.

"The industry has stepped up its drying programs with their focus on Japan and we are in the process of developing a new dry grade, which has higher strength properties than our existing grade," he said.

Rollout of the new grade is scheduled for the fall. As well as Western's new dried lumber strategy, Hert explained to shareholders at the meeting his decision to shut down several of the company's sawmills over the summer, in a bid to reduce Western's log and lumber inventories by at least \$40 million.

"Realizing that we were not going to bring inventories down as quickly as we needed to be prepared for the fall, we exercised discipline in cash management and have given early notice of mill and logging downtime, taking advantage of the summer season," he said.

Furthermore, from June 30 the company will defer payment of 50 per cent of the interest on a US\$221 million secured bond to help manage its liquidity, which stood at \$74.9 million at the end of the first quarter of this year.

"It is onerous, and we would like to get out from under it as soon as we can," said Hert of the bonds. "There are changes that can be made. The major shareholders knew that it was a turnaround situation, and the major shareholders are prepared to look at options for more stable financing for the company."

At the end of the first quarter, Western had recorded US\$80.6 million on deposit in countervailing and anti-dumping duties - cash it could see returned if the U.S. softwood lumber dispute is resolved. Western (previously **Doman Industries Ltd.**) shareholders have watched the company's **Toronto Stock Exchange**-listed stock drop steadily over the past year from a high of \$11.30, although it rose \$0.70 to reach \$4.10 at press time.

Hert told shareholders last week: "I will be the first to admit that we are facing a challenge turning the company around in softening markets, rising exchange rates and a lumber duty world, with limited cash. We are seeing improvements in costs and structure of the company, and we have become more disciplined in managing cash."

**Brascan Corp.**, the coast's new heavyweight, having purchased the forestland and sawmilling assets of **Weyerhaeuser Co.**, recently increased its stake in Western to 11 per cent, via its **Tricap Restructuring Fund**. Brascan holds 50 per cent of Tricap equity.

"Changes have to happen to address issues facing the coast, but the coastal industry is not going away," said **Peter Gordon**, Tricap's managing partner. "We have a large stake here on the coast and it is our objective to see it through successfully."

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