“Challenges & Upside to Downunder Forest Valuation”

The Ritz-Carlton Lodge – Reynolds Plantation

March 24, 2011

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Overview of What’s Up Downunder

- Review Aussie/Kiwi transaction data
- Investors weigh in
- Trouble in Tassie
- Offshore value issues in general
  - FX and taxation
  - Convergence of accounting & valuation rules
New Zealand – (lack of) Corruption Perceptions Index = 9.4
World Rank = #1

Australia – Corruption Perceptions Index = 8.7
World Rank #8

United States – Corruption Perceptions Index = 7.5
World Rank #19
Oceana Perceived as Safest Offshore

SEWALL 2Q-2010 INVESTOR SURVEY

- Mozambique - plantations
- Swaziland - plantations
- Mexico
- Nicaragua - teak
- Guatemala - teak
- Colombia - teak
- Ecuador - teak
- Argentina - euc.
- So. Africa - plantations
- W Central Brazil - teak
- Eastern Europe
- Costa Rica - teak
- Panama - teak
- W Central Brazil - euc.
- So. Brazil - planted euc.
- So. Brazil - planted pine
- Uruguay - euc.
- Chile - planted pine
- Australia (Tasm.) - native euc.
- Australia - planted pine/euc.
- New Zealand - pine
- Canada - mixed forest

RISK PREMIA OVER U.S. FORESTLAND

MEDIAN VALUES FROM 14 INVESTORS
New Zealand – Pine Plantations

INVESTOR COMMENTS:

**Downside:** Mgt dilution · Currency risk · Fewer domestic markets · High cost structure · Exposure to freight costs

**Upside:** Spread may fall as US economy suffers worse relative to NZ – stable economy, less debt · Proximate ports reduce spread · Supply agreements common · Competitive infrastructure · Few physical or biologic risks

Diversity from exposure to multiple economies | Arguably less currency risk than Aust. (export logs traded in USD)
## New Zealand Transactions

<table>
<thead>
<tr>
<th>LOCATION PIN/EUC</th>
<th>DATE</th>
<th>HA</th>
<th>LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rayonier to Phaunos - Matariki Forest</td>
<td>Feb-10</td>
<td>132,000</td>
<td>North &amp; South Islands</td>
</tr>
<tr>
<td>Mangakahia Forest - GTI6 to Sino-Forest</td>
<td>Jan-11</td>
<td>12,586</td>
<td>Northland (north North Island)</td>
</tr>
<tr>
<td>CHH Kinleith Forests - CHH to GFP</td>
<td>Jan-11</td>
<td>6,880</td>
<td>Central North Island</td>
</tr>
</tbody>
</table>
NZ Forests: Named & Known

Matariki Forest

Port of Tauranga

Kaingaroa Forest

CENTRAL NORTH ISLAND
Carbon Markets in NZ

- (Sept 2009) Ernslaw One sold carbon credits to Norwegian Govt for $21 to $22/T (NZD 11 million). Forest = 11,000ha of Douglas-fir in South Island and 17,000ha of radiata pine in the North Island.

- (Jan 2011) “Carbon credits fell to NZ$19.75 a ton from NZ$20…Companies in NZ that emit greenhouse gases have the option to pay a tax of NZ$25 a ton of emissions or buy carbon credits. …Spot prices are moderating around the mid-to-high $19 level with emitters choosing not to bid a market that has no volume.”

- Recently first TIMO made 2 carbon sales.
INVESTOR COMMENTS:

**Downside:** Mgt dilution · Currency risk · Housing risk · Labor agreements · Drought/Fire

**Upside:** Spread may fall as US economy suffers worse relative to OZ – stable economy, less debt · Proximate mills reduce spread · Supply agreements common · Competitive infrastructure

Higher exposure to single economy & Aussie currency (i.e., compared to NZ)
### Australia Transactions

<table>
<thead>
<tr>
<th>AUSTRALIA</th>
<th>DATE</th>
<th>HA</th>
<th>PIN/EUC</th>
<th>LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auspine to Gunns*</td>
<td>Feb-08</td>
<td>46,197</td>
<td>PIN</td>
<td>South Australia</td>
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<tr>
<td>WeyCo to GTFP</td>
<td>1-Jul</td>
<td>24,076</td>
<td>PIN</td>
<td>South Australia &amp; Victoria</td>
</tr>
<tr>
<td>Gunns/Auspine to GMO*</td>
<td>Feb-09</td>
<td>32,825</td>
<td>PIN</td>
<td>South Australia</td>
</tr>
<tr>
<td>Timbercorp to ABP</td>
<td>Oct-09</td>
<td>96,819</td>
<td>EUC</td>
<td>So. &amp; W. Australia</td>
</tr>
<tr>
<td>Queensland to Hancock</td>
<td>Jun-10</td>
<td>211,344</td>
<td>PIN</td>
<td>Queensland</td>
</tr>
<tr>
<td>Gunns to Jan Cameron &amp; Tasman. Land Conservancy</td>
<td>Jul-10</td>
<td>28,000</td>
<td>Nat. Euc</td>
<td>Tasmania (for conservation)</td>
</tr>
<tr>
<td>Gt. Southern to New Forests</td>
<td>Jan-11</td>
<td>252,000</td>
<td>PIN</td>
<td>Greater Australia (6 States)</td>
</tr>
<tr>
<td>Gunns plans to sell</td>
<td>mid 2011?</td>
<td>164,000</td>
<td>EUC</td>
<td>Tasmania</td>
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<tr>
<td>Gunns plans to sell</td>
<td>mid 2011?</td>
<td>40,000</td>
<td>PIN</td>
<td>South Australia</td>
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<tr>
<td>Forestry SA - model forest</td>
<td>2011-12</td>
<td>101,000</td>
<td>PIN</td>
<td>South Australia</td>
</tr>
<tr>
<td>Forestry NSW - long process</td>
<td>2012+</td>
<td>280,000</td>
<td>PIN</td>
<td>New South Wales</td>
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</tbody>
</table>

* includes mills
South Australia – a studied forest

Green Triangle - Radiata Pine
3 & 4 rotations of intensive data
Former Timbercorp Blue Gum – Australia

10-yr *E. globulus* in W. Australia

9-yr *E. globulus* in So. Australia’s Green Triangle
INVESTOR COMMENTS:

**Basis Pt Spread** over US Domestic Forestland Ranges from 0 to “won’t invest there”

**Downside:** Mgt dilution • Currency risk • High environmental-social-reputation risk • Thin unstable markets • Community service obligations • May be uninvestable

**Upside:** Social risk mitigated by supply contracts • Supportive government • Infrastructure subsidies • Relatively stable national economy
Tasman Mills in Distress

Bell Bay – Proposed Site of Gunns Pulpmill

Bell Bay - FEA pine mill bankrupt → Gunns buys it & shuts mills to east
FOREST protest groups have slammed the axing of a moratorium due to start today that would have halted all logging in Tasmania's high-conservation-value forests.
You people won't let us pulp-up old growth in the new mill so, we're removing it to make room for plantations. Why don't you scummy tree-huggers get a job instead of receiving hand-outs. I spent mine on a new truck - back to work I go.

Posted by: red of neck 4:10pm Tuesday (after a few beers?)
FT “Triad” Landscape Management

Arthur River Preserve

Thinned native euc’s

Huon R. Preserve – production forest rear

Euc. plt.
Global Appraisal & Due Diligence
Inconsistent Treatment of FX

- Standardizing would help the asset class

- Currency hedging being used
  - Should this be considered part of the bundle of rights to be appraised?
On the other hand.... Speculation & Reality

NZD to USD Exchange Rates

- Apr-10 to May-10: 0.6400 to 0.7400
- Jun-10 to Aug-10: 0.7300 to 0.7400
- Sep-10 to Nov-10: 0.7100 to 0.7800
- Dec-10 to Feb-11: 0.6800 to 0.7200

Bloomberg vs Actual
Other Challenges

Inconsistent Treatment of Income Taxation
- Not well understood or communicated to appraisers
- Country to country variability inevitable
- Also depends on origin of investor

Emerging in-country TIMOs heighten competition

Compliance with Accounting Rules
Converging/Harmonizing Accounting Rules

US GAAP & FASB – historic cost → objective; not relevant
- 1960s S&P500 trading @ 1.5x book value → late 90s @ 5-6x

IFRS & IASB – mark to market → subjective; relevant
- Convergence will take ≥4 yrs most likely
- US resistance – sweeping changes to accounting & tax law
- IFRS to converge Fair Value guidance with US GAAP → IFRS 13 issuance pending
- Intl standards → IFRS 13 will be required by 2013, with earlier adoption optional

“Fair Value” standard will prevail: key basis for material financial statement assertions of management

Definition (SFAS 157 / ASC 820): …the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- More emphasis on what seller will accept to do a deal
- Orderly and active markets presumed
- Lack of orderly or active market → “Level 3” Analysis during inactive markets
3rd party appraisals – not required under Int’l accounting standards. However, it lowers perceived risk for auditors and regulators.

Level 1 – based on market data of identical assets
Level 2 – based on market data for similar assets
Level 3 – little or no observable relevant market data → analyst must “develop” rationale for valuation

Is Level 3 needed for US market today? Yes, for example:

- Interviews with brokers/buyers
- Analysis of bid-ask spread, offers, listings withdrawn
- Impact of changes in discount rate, liquidity, availability of capital
- Use these things to “calibrate” scant market evidence and develop hypothetical meeting of the minds.
Fair value less point of sale costs

Treatment of “Biological Assets: - i.e., _things that grow_
- Separate values for property & biological assets (things that grow).
- Value of future rotations separated from value of current crop… square peg in a round hole.
- Freehold & timber deed (forestry right) >1 rotation infers land value
- Australian AASB 141 – requires appraisers to report separate values for land and biological assets (current crop)
  - Registered Land Valuers – a racket?
More IFRS Developments

Blockage discounts prohibited
- No volume discounts for shares of IBM stock $\rightarrow$ value $= P \times Q$
- Scary for real estate. The **appraiser must interact with accountant in valuation process** to identify the “unit of account.” With non-financial assets, the unit of account in some cases is the whole asset.

Auditors & regulators often unfamiliar with forestland markets
- Certainly lots of fun for US TIMOs and their appraisers.
- Plot thickens offshore.
- Broaden sense of intended use and intended users $\rightarrow$ corporate officers, auditors, regulators, investors.
- Involve accountants in valuation planning process.

Major accounting firm in Australia: “*Do not get your discount rates from transactions bought by US-based TIMOs.*”
Final Word on Accounting Convergence

Whether involved in offshore timber investments or solely domestic, the time to get involved in the process is…

**NOW**

*Accountants are making the rules and need your input.*
Advice for investors: Wisdom & Patience

Fools rush in where angels fear to tread.
SEWALL – since 1880
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