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Paper & Packaging
MLPs Looming, Buybacks and M&A Likely to Accelerate

Key Takeaway

While IP, RKT, and PKG have been largely range bound due to soft box demand and new supply, we believe there is a high likelihood one of the containerboard producers create an MLP structure over the next 6 - 12 months. The latter could unlock 30 - 50% value in the stocks and accelerate stock buybacks and M&A in the industry.

MLP likely next 6 - 12 months. We initially had reservations on the MLP structure for containerboard, but based on IP and RKT's recent comments and the assurance they would not move forward unless they were able to run their business as currently constructed (i.e. ability to take downtime and raise prices), we believe there is a high likelihood one of the containerboard producers create an MLP over the next 6 - 12 months. While there is still a moratorium on PLRs, we have heard chatter it could be lifted as soon as this fall.

Makes strategic sense and favorable risk reward. By creating an MLP structure for their virgin containerboard mills, the GP / parent (IP, RKT, PKG) would still have control of the assets and % of the cash flow of the MLP, while benefiting from tax deferral. Further, the parent would still benefit from all the upside (and downside) from higher containerboard prices. If interest rates rise and MLPs become out of favor, the GP could potentially buy the assets down the road from the LP at a compelling price. Structuring an MLP is complex, but if done correctly, we believe the risk reward is compelling and makes strategic sense for the containerboard producers.

30 - 50% potential upside. Our analysis assumes the containerboard producers would structure an MLP similar to Westlake Chemical, where there is a cost plus supply agreement from the parent that guarantees a fixed margin and a predictable CF stream. Our MLP model is based on trough EBITDA margins and excludes the earnings stream from recycled mills and box assets. With the supply agreement in place, there is good visibility in the cash flow and we believe the containerboard MLPs would trade with a 7 - 7.5% DCF yield. Based on our SOTP / MLP model, we believe there's 30 - 50% upside potential for IP, RKT, and PKG.

More buybacks on tap? While the cash proceeds from the MLPs are unlikely to be used for growth projects, it could be deployed for stock buybacks and M&A. Based on the DCF yield the MLPs would likely trade at, the containerboard producers could monetize their virgin mills at a ~12x EV/EBITDA, a significant bump from the ~6x EV/EBITDA multiple they are trading at. By capitalizing on the "valuation arb", it's an innovative way to unlock shareholder value. Assuming the parent retains a 75% interest, IP, RKT, and PKG could potentially buyback 10%+ of their stock from the proceeds.

MLPs could drive further M&A. The cash proceeds could be used for acquisitions, noting RKT flagged M&A as its primary motive to potentially create an MLP. While valuation and the size of certain deals may have been deterrents in the past, that dynamic could change materially. A 9 - 10x EV/EBITDA multiple on a transaction becomes more palatable if the companies are able to monetize their containerboard assets at ~12x EV/EBITDA. We still believe the containerboard industry could consolidate further, and boxboard and the Brazilian containerboard industry would be logical as well.

Trimming estimates. We are updating our estimates for IP, RKT, and PKG assuming flat containerboard prices in 2015 and reflecting recent FX moves, along with more muted OCC prices and lower pension contribution from the highway bill.

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Company Name	Ticker	Mkt. Cap (MM)	Rating	Price	Price Target	Cons. Next FY	Current EPS Estimates 2013	2014	2015	Previous Est. 2014	2015
International Paper	IP	$20,192.0	BUY	$46.73	$59.00	$3.55	$3.17	$3.34	$4.16	$3.50	$4.58
Packaging Corp of America	PKG	$6,105.4	BUY	$62.30	$80.00	$4.66	$3.28	$4.64	$5.29	$4.64	$5.66
Rock-Tenn Company	RKT	$6,759.8	BUY	$46.30	$60.00	$3.53	$3.65	$3.57	$4.11	$3.57	$4.21

MLPs Looming, Buybacks and M&A Likely to Accelerate

MLP Likely Next 6 – 12 Months

The potential for virgin containerboard mills to be dropped into a Master Limited Partnership (MLP) structure has been quite topical since Perry Capital first floated the idea in an investment letter late July. We initially did not put much thought into the idea, but based on IP and RKT's recent public comments and the opportunity to potentially unlock 30 – 50% upside in their stock prices (refer to Chart 8) based on our analysis, we believe there is a high probability one of the containerboard producers creates an MLP structure for their virgin containerboard assets over the next 6 -12 months.

An MLP typically guarantees a set level of distributed cash flows much like a fixed income security.

An MLP is a corporate structure that typically guarantees a level of cash distributions over time (much like a fixed income security), with advantageous tax treatment in that MLP cash flows are distributed on a tax deferred basis, with unit holders only liable for capital gains tax on the MLP and distributed cash flows once they sell their units. The majority of MLPs (>80%) are energy natural resource related, however, the IRS definition for MLP treatment also includes other natural resource based activities including coal and timber. For a more in depth discussion of the structure and the investment merits of MLPs, please refer to Jefferies MLP primer: *A Gentleman's Guide to Yield & Value*.

To move forward, the containerboard producers would need to obtain a private letter ruling (PLR) from the IRS that deems containerboard production an MLP eligible business under section 7704(d)(1)(E) of the IRS code. As part of Perry Capital's analysis, they obtained an expert opinion from PricewaterhouseCoopers (tax consultants) that concluded the production process for virgin containerboard, defined as containerboard containing greater than 75% virgin timber fiber and less than 25% recycled fiber would be MLP eligible under the current guidelines. While the opinion is no way conclusive, PWC has direct experience with these types of PLRs in the past and based on the amount of resources IP, RKT, and PKG have deployed to delve into the topic, it speaks to the potential viability of the MLP structure for virgin paper assets (i.e. containerboard, boxboard, pulp).

According to the opinion letter from PWC, mill assets that use less than 25% OCC in the production of containerboard should be eligible for MLP treatment.

Chart 1: Containerboard Mill Summary

	IP	RKT	KS
Average virgin output	74%	78%	83%
Average recycled output	26%	22%	17%
Capacity <25% OCC	87%	72%	92%
Capacity >25% OCC	13%	28%	8%

Source: July 2014 Perry Capital Letter

When Perry Capital's analysis was first released, the containerboard stocks rallied on the news as MLP conversion have a track record of creating value and MLPs trade at a much higher multiple (10 – 16x EV / EBITDA) than the containerboard producers (5 – 6x EV / EBITDA). Both IP and RKT reported earnings after the Perry Capital letter was released, and both companies, while noting that they were evaluating the opportunity, did not sound very far along in the process. That said, the containerboard producers have subsequently devoted a considerable level of resources to evaluating the opportunity and we have noticed a recent change in tone. IP's management commentary has changed from being "far from convinced" an MLP was a good idea on its earnings call July 29th to being "more

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intrigued" and in a "more serious evaluation phase" at an investor conference in late August. RKT's recent comments also indicate a significant level of resources and attention being committed to the opportunity, with the company evaluating potential MLP structures (Opco vs. specific mill drop-downs).

MLP Structure Provides Compelling Risk Reward Dynamics

Containerboard producers are likely to choose an MLP structure in which they retain operational control over the mill assets in order to maintain market balance.

It remains unclear when the IRS will lift the moratorium on PLRs or decides to take a stricter stance, but we have heard chatter that it could be lifted as soon as this fall. While we initially had some reservations whether the companies would be able to optimize their mill system, take downtime, and shutter capacity under an MLP structure, the management teams we spoke with assured us they would not move forward unless they were able to run their business as currently constructed.

Some investors are debating whether it makes strategic sense to MLP the virgin containerboard mills, since it's unclear if there's an obvious use of the cash or it's simply financial engineering. Unlike some of the growth markets in energy where MLPs are commonly found, it's not likely the cash proceeds will be used for growth projects. That said, we believe if the companies are able to monetize these assets at a much higher valuation, while keeping control of the assets as the general partner (GP) and still able to realize the upside of higher containerboard prices, it's hard for us to find a reason why the containerboard producers would not capitalize on the MLP structure to unlock shareholder value.

Most MLP's trade at a 13 – 18x market cap / DCF multiple of 5.6 – 7.7% LP DCF yield, which is a significant premium to the containerboard producers.

In the current low interest environment where investors are seeking yield, most MLPs trade at 13 – 18x market cap / DCF (distributable cash flow), which translates to a 5.6 - 7.7% DCF yield (refer to Chart 2). The latter is a significant premium to the 10% FCF yield the containerboard stocks trade at, especially considering DCF is pre-tax and based on maintenance capex. On an EV/EBITDA basis, it translates to a 10 – 16x EV/EBITDA, which is a significant valuation bump from where the containerboard stocks are trading at (5 – 6x EV/EBITDA). It's unclear what the companies might use the cash proceeds from the MLP for, but on a base case if they simply buy back their stock and capitalize on the arbitrage from the valuation spread, we believe it's an innovative way to create shareholder value.

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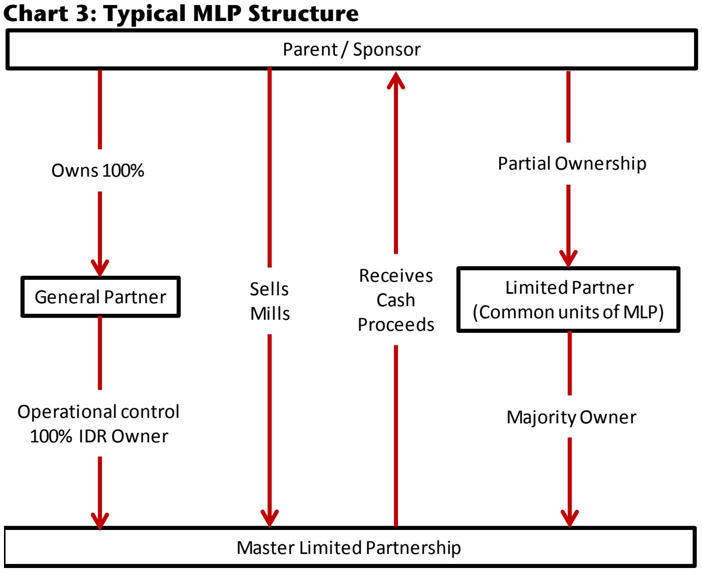
Chart 2: Jefferies Energy MLP and Containerboard Comp Sheet

Jefferies Energy MLP Valuation	Ticker	Rating	2015E DCF Yield (LP DCF / Market Cap	2015E LP EV / EBITDA	2015E MC / LP DCF
Access Midstream Partners, L.P.	ACMP	BUY	6.9%	16.2x	14.4x
AmeriGas Partners, L.P.	APU	BUY	7.8%	10.9x	10.6x
DCP Midstream Partners, L.P.	DPM	BUY	6.0%	16.8x	14.6x
El Paso Pipeline Partners, L.P.	EPB	HOLD	6.3%	15.8x	15.3x
Enterprise Products Partners, L.P.	EPD	HOLD	4.0%	17.3x	18.6x
Kinder Morgan Energy Partners, L.P.	KMP	HOLD	6.0%	19.8x	16.6x
MarkWest Energy Partners, L.P.	MWE	HOLD	5.0%	17.3x	17.4x
Targa Resources Partners, L.P.	NGLS	HOLD	4.9%	17.3x	15.5x
ONEOK Partners, L.P.	OKS	BUY	5.9%	17.7x	15.6x
Plains All American Pipeline, L.P.	PAA	HOLD	4.9%	20.0x	18.8x
Spectra Energy Partners, LP	SEP	HOLD	4.8%	17.4x	17.7x
Williams Partners, L.P.	WPZ	HOLD	7.5%	16.0x	13.5x
Average			**5.8%**	**16.9x**	**15.7x**
Jefferies Containerboard Valuation			**2015E FCF Yield**	**2015E EV / EBITDA**	**2015E MC / FCF**
International Paper	IP	BUY	10.1%	5.6x	9.9x
Rocktenn	RKT	BUY	10.0%	5.6x	10.0x
Packaging Corp of America	PKG	BUY	9.7%	6.3x	10.3x
Average			**10.0%**	**5.8x**	**10.0x**

Source: Company data, Factset, Jefferies estimates

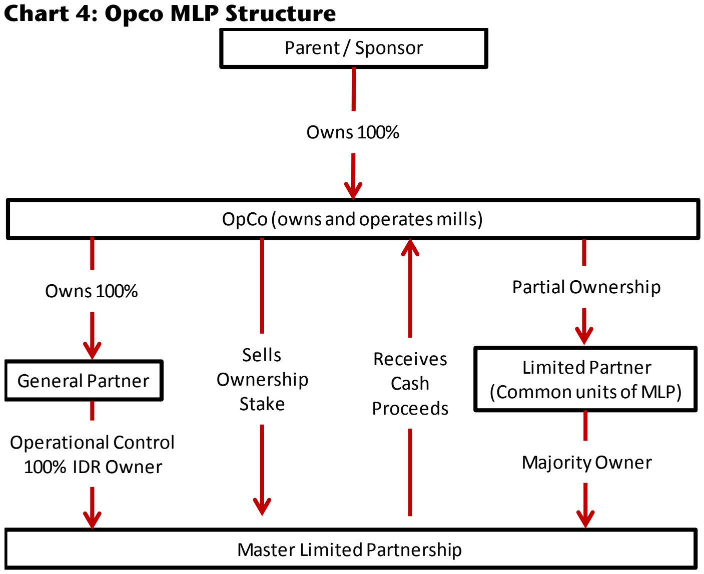
Remember, as the GP of the MLP, the companies would have control of the mills and access to a percentage (based on % ownership) of the cash flow generated from the MLP at significantly lower cash taxes (certain cases tax free) due to tax deferment. Further, as the GP, it would receive IDRs (incentive distribution rights), a cash incentive when certain distribution levels at met.

Chart 3: Typical MLP Structure



Source: Jefferies

Chart 4: Opco MLP Structure



Source: Jefferies

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With control over the GP, the parent is able to buy the assets back down the road at more reasonable valuation if rates rise.

Lastly, if interest rate rises and MLPs become out of favor, the GP would be able to buy the assets down the road from the LP (limited partner) and potentially at a compelling price. As such, we believe it's important for the containerboard producers to move quickly and capitalize on the current low interest rate environment. Structuring the MLP will be complex, but if done properly we believe it's a low risk and high reward proposition that creates value for shareholders.

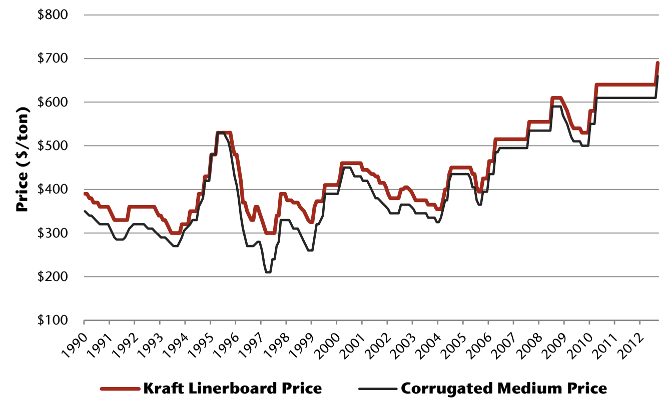
Sum-of-the-Parts Analysis Implies 30 – 50% Upside

We believe a supply agreement type structure similar to Westlake Chemical is more likely for the containerboard assets.

To help quantify the potential upside for IP, RKT, and PKG if they elected to create an MLP structure for their virgin mills, we built a sum-of-the-parts / MLP models (refer to Chart 7, Chart 22, and Chart 26) for each company. While there are a lot of moving pieces on how the MLP would be structured, our analysis is based on a structure similar to the MLP Westlake Chemical created for its ethylene assets (Westlake Partners / WLKP), where there is a long term cost plus supply agreement from the parent that guarantees a fixed margin and volume for the mills that creates a predictable cash flow stream through the length of the contract. While containerboard prices have been much more stable the last few years (refer to Chart 5) following the recent round of consolidation, ultimately the FCF and EBITDA will fluctuate over the cycle, especially during the downturn. With the supply agreement in place, it provides a high level of visibility on the DCF and we believe a virgin mill MLP would trade at a 7 – 7.5% DCF yield (13 – 14x MC / DCF), which we believe is conservative considering a no growth MLP, El Paso Pipeline (EPB), is trading with a 6.3% DCF yield. In our analysis, we have conservatively assumed a trough EBITDA margin that would allow the companies to sustain a certain level of DCF throughout the cycle.

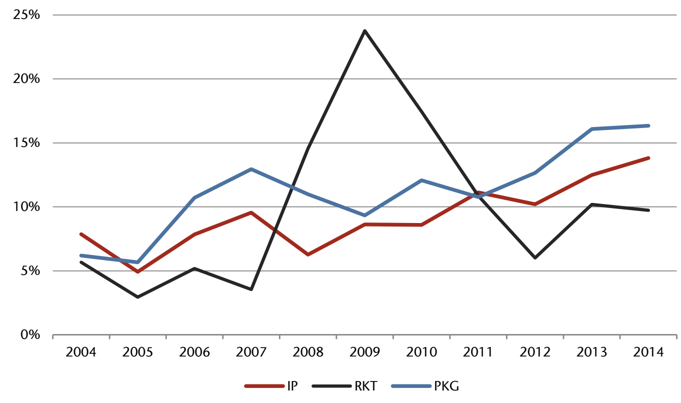
We have assumed the parent's guarantees trough EBITDA margins to the LP in our analysis.

Chart 5: Historical Containerboard Prices



Source: RISI

Chart 6: Containerboard Segment Margins



Source: Company data, Jefferies estimates

In an MLP structure, the parent is able to capitalize on the valuation arb of the FCF yield spread and still captures all of the upside.

In the above structure, it provides stable FCF that an MLP investor would covet, but the parent would still have all the earnings upside (as well as downside) from the mills if price and demand improves. So as an IP shareholder for example, if the company moves forward with an MLP, it would benefit from the "valuation arb" and still be able to capitalize on the upside from improving fundamentals even if the majority of the virgin mills are dropped into the MLP.

We strip out box EBITDA contribution, and assume a no-growth MLP to be conservative.

In our analysis, we have estimated the revenue stream specific to the virgin mills and excluded the contribution from the recycled mills and the box assets, which would not qualify as assets for the MLP. To be conservative, we have assumed the containerboard MLPs would be no-growth and accordingly assumed no inherent value to the IDR. While some investors may argue that would be logical, since it's a low growth business, the

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parent could achieve growth by dropping more assets / increasing ownership or increasing the "guaranteed price" for containerboard, which could provide upside. Lastly, we have assumed the leverage in the MLP would be comparable to the parent.

Chart 7: International Paper: Sum-of-the-Parts / MLP Model

		MLP Virgin Mills		Parent					
				Non- MLP Industrial	Printing	Consumer		Ilim	
	Current	IP Interest	LP Interest	Packaging	Papers	Packaging	Corporate	Joint Venture	Total
EBITDA	$4,566	$545	$182	$2,185	$1,097	$515	$43	$284	$4,850
Interest	$611	$57	$19	$228	$132	$65	$110		$611
Capex	$1,425	$84	$28	$481	$428	$285	$71		$1,377
Taxes	$807	$0	$0	$451	$171	$82	($48)		$657
Other	$301	$0	$0	$144	$72	$34	$3		$253
FCF / DCF	$2,025	$403	$134	$1,169	$438	$116	($87)		$2,174
Debt	$9,488	$884	$295	$3,538	$2,056	$1,008	$1,708	$750	$9,488
Cash	$2,075	$0	$0	$1,032	$450	$220	$374		$2,075
Equity Value	$19,627	$5,764	$1,921	$11,696	$4,427	$3,073	($1,053)	$1,096	$25,829
EV	$27,039	$6,648	$2,216	$14,202	$6,034	$3,860	$282	$1,846	$33,242
Shares outstanding	420	420	420	420	420	420	420	420	420
Equity value / share	**$46.73**	**$13.72**	**$4.57**	**$27.85**	**$10.54**	**$7.32**	**($2.51)**	**$2.61**	**$61.50**
IDR value / share									$0.00
Total value / share									**$61.50**
% upside									31.6%
EV/EBITDA	5.9x	12.2x	12.2x	6.5x	5.5x	7.5x	**6.5x**	6.5x	6.9x
FCF (DCF) Yield	10.3%	7.0%	7.0%	10.0%	9.9%	3.8%	NM	0.0%	8.4%
FCF (DCF) /Share	$4.82	$0.96	$0.32	$2.78	$1.04	$0.28	($0.21)	NM	$5.18
Market Cap/FCF (DCF)	9.7x	14.3x	14.3x	10.0x	10.1x	26.4x	12.1x	NM	11.9x
Net Debt / EBITDA	1.6x	1.6x	1.6x	1.1x	1.5x	1.5x	30.8x	2.6x	1.5x

Source: Company data, Jefferies estimates

We see 30 – 50% base case scenario upside potential for the containerboard producers based on the MLP opportunity.

Based on the above framework, we conclude there's roughly 30 – 50% of potential upside for IP, RKT, and PKG (refer to Chart 22 and Chart 26). The big swing factors in the analysis are the guaranteed margin and percentage of mills the companies will drop into the MLPs. While the upside is not as pronounced as Perry Capital's analysis (50 – 100%), we believe we have taken more reasonable assumptions to assess the value and likely outcome. Optically to us, it appears Perry Capital's analysis assumes current EBITDA margins, which would be aggressive as it would be tough to sustain through the cycle. Further, based on our discussions with the companies, we believe a structure similar to the Westlake Chemical supply agreement is more likely (Westlake is contractually bound to purchase 95% of the volume its ethylene producing MLP counterpart produces at a cost plus $0.10 / lb. rate). Additionally, it does not appear Perry Capital has excluded the contribution from the box assets, which would not qualify under the tax code.

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Chart 8: MLP Assumptions and Implied Price Targets ($ in MM)

($ in mil except per share data)	IP	RKT	PKG
SOTP Price Target	$61.50	$72.32	$87.73
Current Price	$46.73	$46.30	$62.30
% Upside	**31.6%**	**56.2%**	**40.8%**
Operating Assumptions			
% of Mills Eligible for MLP	87.0%	72.0%	100.0%
% of Mills Contributed to MLP	80.0%	65.0%	90.0%
Parent Stake in MLP	75.0%	75.0%	75.0%
Maintenance Capex	$1,000	$400	$250
Supply agreement EBITDA margin	11.0%	10.0%	15.0%
Valuation Assumptions			
LP DCF Yield	7.0%	7.5%	7.0%
MC / LP DCF	14.3x	13.3x	14.3x

Source: Jefferies estimates, company data

While the underlying structure of the containerboard industry and FCF generation has improved materially, the containerboard stocks have been range bound and have seen multiple compression due to the muted demand backdrop and concerns of new capacity coming online. Given the current market dynamics, we believe the management teams are strongly considering using an MLP structure to unlock value and the likelihood at least one of the containerboard producers moves forward in the next 6 – 12 months is high in our view.

MLPs Could Accelerate M&A and Buybacks

If containerboard producers monetize their virgin mills into an MLP at a 10 – 12.5x EV/EBITDA multiple, and buy back their stocks at 5 – 6x 2015 EV/EBITDA, in our view it would be a great way to deploy capital and create shareholder value.

The amount of assets the containerboard producers decide to drop into the MLP and the percentage ownership the parent retains in the Limited Partner will determine how much cash proceeds will be generated from the asset sale. In our analysis, we assumed the parent retains a 75% interest in the MLP, but regardless it would provide a sizable cash inflow event (refer to Chart 9) for IP ($1.9 bil), RKT ($869 mil), and PKG ($840 mil). With both IP (doubled to $3.0 bil) and RKT (84% increase to 16.9 mil shares) recently increasing their buyback programs, we believe as a base case using the majority of the cash to buy back their stocks would be reasonable. The latter could shrink IP (8.9%), RKT (12.1%), and PKG's (12.0%) share count meaningfully. With the potential to monetize the virgin containerboard mills into an MLP at a 10 – 12.5x EV/EBITDA multiple (refer to Chart 9), and buy back their stocks at 5 – 6x 2015 EV/EBITDA, in our view it would be a great way to deploy capital and to create shareholder value.

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Chart 9: MLP Proceeds Could Translate to Meaningful Buybacks ($ in MM)

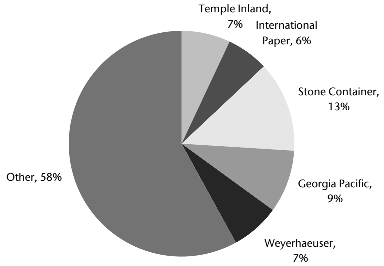
($ in mil except per share data)	IP	RKT	PKG
Cash proceeds from sale of MLP	$1,921	$869	$840
Current share price	$46.73	$46.30	$62.30
Potential share repurchase	**41**	**19**	**13**
% shares outstanding	**9.5%**	**12.9%**	**13.7%**
Parent EV / EBITDA	5.9x	5.6x	6.3x
LP EV / EBITDA	12.2x	12.1x	12.0x

Source: FactSet, Company data, Jefferies estimates

Using IP's market share (33%) as the upper band, RKT could arguably acquire any other producer from a DOJ standpoint with the exception of IP.

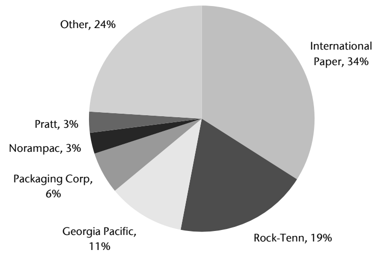
Alternatively, we believe the cash proceeds could be used for M&A, with RKT's recent comments suggesting that it would be its primary motivation for creating an MLP structure. We have seen a fair amount of consolidation in containerboard with the top 4 players now controlling 72% of the market (1997: 36%), but we believe there's more runway. Perhaps an overly simplistic view to look at it, but using IP's market share (33%) as the upper band, RKT could arguably acquire any other producer from a DOJ standpoint with the exception of IP. Further consolidation could help the industry better align the current demand / supply issue in the market and the quickest path for RKT to improve its cost structure.

Chart 10: 1997 US Containerboard Market Share



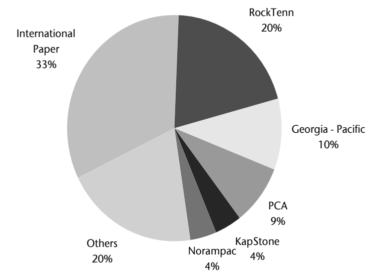
Source: RISI, Jefferies estimates

Chart 11: 2011 US Containerboard Market Share



Source: RISI, Jefferies estimates

Chart 12: 2014 US Containerboard Market Share



Source: RISI, Jefferies estimates

We also see consolidation opportunities in boxboard and Brazilian containerboard.

While IP would be precluded by the DOJ to acquire containerboard assets in N.A. due to its market share, it could make strategic sense for IP and RKT to further consolidate the N.A. boxboard or Brazilian containerboard industry. Based on recent trade publications, Evergreen Packaging (#4 largest SBS producer) is currently being shopped and MeadWestvaco (2nd largest SBS / 2nd largest Brazilian containerboard producer) has long been speculated as a break-up candidate due to its underperformance and pressure from activist investors. Additionally, now that Graphic Packaging has shored up its balance sheet and the private equity investors have exited their position, it increases its chance as a take-out candidate in our view.

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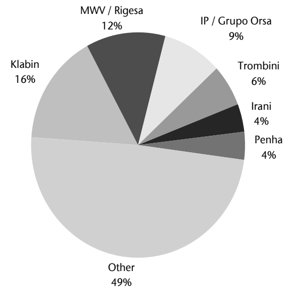
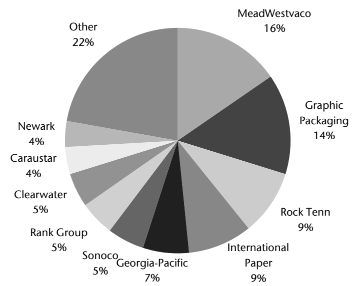
Chart 13: Brazilian Containerboard



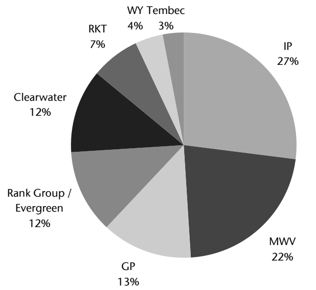
Source: RISI, Jefferies estimates

Chart 14: NA Boxboard Share



Source: RISI, Jefferies estimates

Chart 15: NA SBS Share



Source: RISI, Jefferies estimates

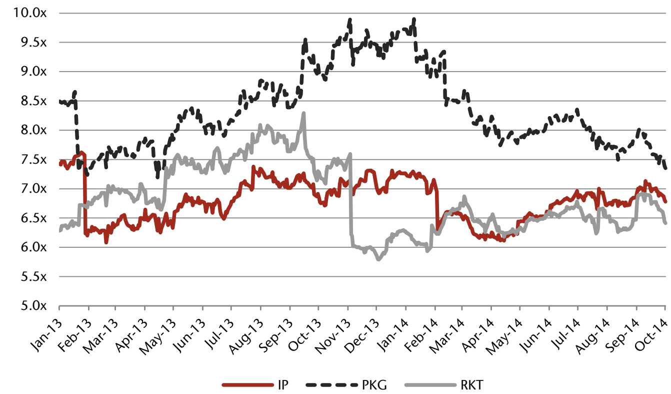
Converting to an MLP structure would provide more dry power for M&A and lower the cost of capital for the parent.

While valuation or the size of the transaction may have prevented certain deals from moving forward in the past, that dynamic could change materially if the companies decided to MLP their virgin containerboard mills. If the value of their stocks appreciated from the event, it would give the companies more dry powder (not to mention cash proceeds from MLP sales) for M&A and would also lower their cost of capital. While previous valuation on certain deals may have seemed rich, it becomes more palatable if the companies are able to monetize their containerboard assets at 10 – 12.5x EV/EBITDA and use it as capital to buy assets even in the 9 – 10x range (before synergies). If the containerboard producers move forward on MLPs, we believe M&A activity would accelerate in the space and has historically been viewed favorably by the market, since there are significant synergies that can be realized.

Buy Ahead of MLP Event

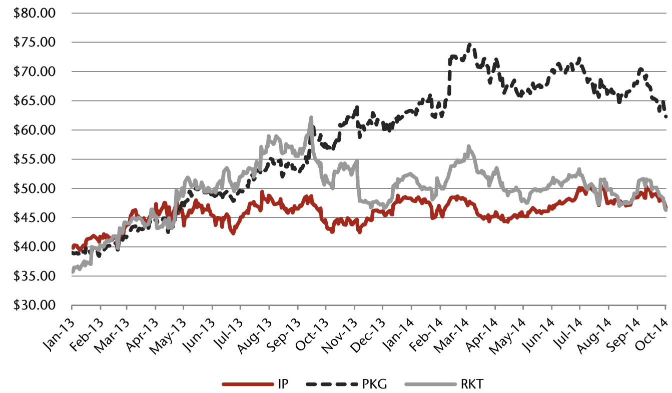
Interest level in the group this year has tapered and the containerboard stocks have been largely range bound due to the soft demand backdrop and new supply coming online. That said, given the high likelihood that the containerboard producers move forward with an MLP and potentially jump start another round of consolidation and stock buybacks, we would capitalize on the limited move in the stocks since the MLP news broke.

Chart 16: Containerboard Forward EV / EBITDA Multiples



Source: Factset

Chart 17: Containerboard Stock Prices



Source: Factset

We understand certain investors are worried about the current demand / supply dynamic and risk of containerboard prices falling. We are monitoring the situation closely, but we believe the industry has shown enough discipline that it will manage production to keep

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the market in balance, and will shutter capacity if demand remains soft. As long as demand grows at a ~1% rate, based on our demand / supply model, capacity utilization should remain in the mid 90s for the next few years, which would keep the market balanced.

Chart 18: Jefferies Containerboard Supply / Demand Model

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Supply																	
Capacity	37,416	37,197	36,822	36,111	36,070	36,368	36,112	36,288	37,007	36,997	35,370	36,003	36,114	36,417	37,014	37,826	38,096
YOY change	2.7%	(0.6%)	(1.0%)	(1.9%)	(0.1%)	0.8%	(0.7%)	0.5%	2.0%	(0.0%)	(4.4%)	1.8%	0.3%	0.8%	1.6%	2.2%	0.7%
Production	33,647	32,104	33,476	33,210	34,818	34,450	35,383	35,402	34,009	31,482	33,906	34,178	34,380	34,736	35,014	35,574	36,108
YOY change	(4.6%)	(4.6%)	4.3%	(0.8%)	4.8%	(1.1%)	2.7%	0.1%	(3.9%)	(7.4%)	7.7%	0.8%	0.6%	1.0%	0.8%	1.6%	1.5%
Operating Rate	**89.9%**	**86.3%**	**90.9%**	**92.0%**	**96.5%**	**94.7%**	**98.0%**	**97.6%**	**91.9%**	**85.1%**	**95.9%**	**94.9%**	**95.2%**	**95.4%**	**94.6%**	**94.0%**	**94.8%**
Demand																	
Box cutup	30,539	28,786	29,044	29,202	30,271	30,662	31,267	31,222	30,121	28,110	29,012	29,159	28,861	28,955	29,100	29,391	29,685
YOY change		(5.7%)	0.9%	0.5%	3.7%	1.3%	2.0%	(0.1%)	(3.5%)	(6.7%)	3.2%	0.5%	(1.0%)	0.3%	0.5%	1.0%	1.0%
Other Demand	673	1,348	2,213	2,156	2,078	1,360	1,706	1,756	864	977	1,392	1,567	2,054	2,161	2,172	2,256	2,342
Apparent consumption	31,212	30,134	31,257	31,358	32,349	32,022	32,973	32,978	30,985	29,087	30,404	30,727	30,915	31,116	31,272	31,647	32,027
YOY change		(3.5%)	3.7%	0.3%	3.2%	(1.0%)	3.0%	0.0%	(6.0%)	(6.1%)	4.5%	1.1%	0.6%	0.7%	0.5%	1.2%	1.2%
Exports	3,605	3,195	3,334	3,342	3,357	3,803	3,241	3,563	3,714	3,501	4,111	4,172	4,324	4,327	4,695	4,980	5,163
% of Production	10.7%	10.0%	10.0%	10.1%	9.6%	11.0%	9.2%	10.1%	10.9%	11.1%	12.1%	12.2%	12.6%	12.5%	13.4%	14.0%	14.3%
YOY Change		(11.4%)	4.4%	0.2%	0.4%	13.3%	(14.8%)	9.9%	4.3%	(5.7%)	17.4%	1.5%	3.6%	0.1%	8.5%	6.1%	3.7%
Imports	1,170	1,165	1,230	1,040	1,160	950	1,000	960	920	762	769	775	688	843	999	999	999
% of Supply	3.5%	3.6%	3.7%	3.1%	3.3%	2.8%	2.8%	2.7%	2.7%	2.4%	2.3%	2.3%	2.0%	2.4%	2.9%	2.8%	2.8%
YOY Change		(0.4%)	5.6%	(15.4%)	11.5%	(18.1%)	5.3%	(4.0%)	(4.2%)	(17.2%)	0.9%	0.8%	(11.3%)	22.7%	18.4%	0.0%	0.0%
Inventories	2,812	2,752	2,867	2,417	2,689	2,264	2,432	2,254	2,484	2,140	2,299	2,353	2,182	2,318	2,365	2,311	2,227
Inventory Change		(60)	115	(450)	272	(425)	168	(178)	230	(344)	159	54	(172)	137	47	(54)	(83)
Inventories (weeks)	4.8	4.8	5.0	4.2	4.6	3.5	3.6	3.6	4.7	3.7	3.8	3.9	3.7	4.0	4.1	3.9	3.8

Source: AF&PA, FBA, RISI, Jefferies estimates

We are trimming our estimates for IP, RKT, and PKG as we are now baking in flat containerboard prices for 2015 as a base case, where we previously assumed a $25 / ton increase in the spring of next year. Our estimates now also account for the recent moves in FX, most notably the ruble ($0.18 hit for 3Q for IP), lower OCC prices, and the change in the highway bill for pension deferment for IP and RKT.

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Chart 19: International Paper: Annual Earnings Model

International Paper
Annual Earnings Model
Philip Ng, CFA 212-336-7369

($ in millions, except per share da	2003	2004	2005	2006	2007
Industrial Packaging	$4,170.0	$4,830.0	$4,830.0	$4,925.0	$5,245.0
EBIT	$264.0	$380.0	$238.0	$386.0	$501.0
% margin	6.3%	7.9%	4.9%	7.8%	9.6%
Printing Papers	$7,280.0	$7,670.0	$7,860.0	$6,700.0	$6,530.0
EBIT	$464.0	$581.0	$578.0	$764.0	$1,101.0
% margin	6.4%	7.6%	7.4%	11.4%	16.9%
Consumer Packaging	$2,465.0	$2,605.0	$2,695.0	$2,685.0	$3,015.0
EBIT	$183.0	$161.0	$123.0	$172.0	$198.0
% margin	7.4%	6.2%	4.6%	6.4%	6.6%
Distribution	$5,860.0	$6,065.0	$6,380.0	$6,785.0	$7,320.0
EBIT	$80.0	$87.0	$84.0	$128.0	$146.0
% margin	1.4%	1.4%	1.3%	1.9%	2.0%
Forest Products	$2,390.0	$2,395.0	$2,575.0	$765.0	$485.0
EBIT	$720.0	$793.0	$943.0	$678.0	$471.0
% margin	30.1%	33.1%	36.6%	88.6%	97.1%
Other Businesses	$1,235.0	$1,120.0	$915.0	$935.0	$135.0
EBIT	$23.0	$38.0	$17.0	$61.0	$6.0
% margin	1.9%	3.4%	1.9%	6.5%	4.4%
Corp & Intersegment	$1,262.0	$1,326.0	$1,158.0	$800.0	$840.0
EBIT	$463.0	$460.0	$597.0	$738.0	$713.0
Total Sales	**$22,138.0**	**$23,359.0**	**$24,097.0**	**$21,995.0**	**$21,890.0**
EBIT	$1,271.0	$1,580.0	$1,386.0	$1,451.0	$1,710.0
% margin	5.7%	6.8%	5.8%	6.6%	7.8%
Interest Expense	$705.0	$710.0	$593.0	$521.0	$297.0
Pretax Income	**$566.0**	**$870.0**	**$793.0**	**$930.0**	**$1,413.0**
% Margin	2.6%	3.7%	3.3%	4.2%	6.5%
Income taxes	$150.0	$226.0	$257.0	$278.0	$426.0
Tax Rate (%)	26.5%	26.0%	32.4%	29.9%	30.1%
	($83.0)	($26.0)	($12.0)	($17.0)	($24.0)
Net Income	$333.0	$618.0	$524.0	$635.0	$963.0
Diluted EPS	**$0.69**	**$1.27**	**$1.03**	**$1.30**	**$2.22**
% growth	(38.1%)	82.2%	(18.8%)	26.4%	71.2%
Diluted Shares	479.6	488.4	509.7	488.7	433.0
EBITDA	**$2,618.0**	**$2,937.0**	**$2,762.0**	**$2,609.0**	**$2,796.0**
% margin	11.8%	12.6%	11.5%	11.9%	12.8%

	2008	2009	2010	2011	2012	2013	2014E	2015E
Industrial Packaging	$7,690.0	$8,890.0	$9,840.0	$10,430.0	$13,280.0	$14,810.0	$14,991.6	$15,255.3
EBIT	$482.0	$741.0	$845.0	$1,160.0	$1,355.0	$1,849.0	$2,070.5	$2,125.9
% margin	6.3%	8.6%	8.6%	11.1%	10.2%	12.5%	13.8%	13.9%
Printing Papers	$6,810.0	$5,680.0	$5,940.0	$6,215.0	$6,230.0	$6,205.0	$5,811.6	$5,981.7
EBIT	$734.0	$464.0	$798.0	$859.0	$599.0	$512.0	$506.9	$650.7
% margin	10.8%	8.2%	13.4%	13.8%	9.6%	8.3%	8.7%	10.9%
Consumer Packaging	$3,195.0	$3,060.0	$3,400.0	$3,710.0	$3,170.0	$3,435.0	$3,472.0	$3,634.5
EBIT	$47.0	$177.0	$215.0	$364.0	$265.0	$208.0	$212.4	$314.5
% margin	1.5%	5.8%	6.3%	9.8%	8.4%	6.1%	6.1%	8.7%
Distribution	$7,970.0	$6,525.0	$6,735.0	$6,630.0	$6,040.0	$5,650.0	$2,628.0	-
EBIT	$103.0	$55.0	$78.0	$86.0	$71.0	$43.0	$18.0	-
% margin	1.3%	0.8%	1.2%	1.3%	1.2%	0.8%	0.7%	-
Forest Product	$200.0	$45.0	$220.0	-	-	-	-	-
EBIT	$409.0	$25.0	$94.0	-	-	-	-	-
% margin	204.5%	55.6%	42.7%	-	-	-	-	-
Corp & Intersegment	$1,036.0	$834.0	$956.0	$951.0	$887.0	$1,020.0	$837.7	$845.6
EBIT	$105.0	$158.0	$211.0	$118.0	$170.0	$24.0	$46.0	$35.0
Total Sales	**$24,829.0**	**$23,366.0**	**$25,179.0**	**$26,034.0**	**$27,833.0**	**$29,080.0**	**$26,065.6**	**$24,025.8**
EBIT	$1,670.0	$1,304.0	$1,819.0	$2,351.0	$2,120.0	$2,588.0	$2,761.8	$3,056.2
% margin	6.7%	5.6%	7.2%	9.0%	7.6%	8.9%	10.6%	12.7%
Interest Expense	$492.0	$669.0	$608.0	$547.0	$672.0	$612.0	$614.0	$611.0
Pretax Income	**$1,178.0**	**$635.0**	**$1,211.0**	**$1,804.0**	**$1,448.0**	**$1,976.0**	**$2,147.8**	**$2,445.2**
% Margin	4.7%	2.7%	4.8%	6.9%	5.2%	6.8%	8.2%	10.2%
Income taxes	$372.0	$208.0	$395.1	$590.0	$425.0	$510.0	$685.7	$806.9
Tax Rate (%)	31.6%	32.8%	32.6%	32.7%	29.4%	25.8%	31.9%	33.0%
Equity earnings / (min interest)	($2.0)	($49.0)	$64.0	$147.0	$63.0	($47.0)	($21.0)	$108.0
Net Income	$804.0	$378.0	$879.9	$1,361.0	$1,086.0	$1,419.0	$1,441.0	$1,746.2
Diluted EPS	**$1.90**	**$0.89**	**$2.03**	**$3.14**	**$2.47**	**$3.17**	**$3.34**	**$4.16**
% growth	(14.5%)	(53.4%)	129.2%	54.2%	(21.2%)	28.3%	5.4%	24.4%
Diluted Shares	422.6	426.0	432.7	434.0	439.2	447.4	431.2	420.0
EBITDA	**$3,017.0**	**$2,776.0**	**$3,275.0**	**$3,683.0**	**$3,606.0**	**$4,135.0**	**$4,271.8**	**$4,566.2**
% margin	12.2%	11.9%	13.0%	14.1%	13.0%	14.2%	16.4%	19.0%

Source: Company filings and Jefferies

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Chart 20: International Paper: Balance Sheet

International Paper Balance Sheet Philip Ng, CFA 212-336-7369 ($ in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Assets																
Cash	$1,198.0	$1,224.0	$1,074.0	$2,363.0	$2,596.0	$1,641.0	$1,624.0	$905.0	$1,144.0	$1,892.0	$2,073.0	$3,994.0	$1,302.0	$1,802.0	$2,075.1	$2,494.0
Accounts receivable	$3,433.0	$2,778.0	$2,780.0	$2,765.0	$2,994.0	$2,416.0	$2,704.0	$3,152.0	$3,288.0	$2,695.0	$3,039.0	$3,486.0	$3,562.0	$3,756.0	$3,511.6	$3,470.4
Inventories	$3,182.0	$2,877.0	$2,879.0	$2,767.0	$2,718.0	$1,932.0	$1,909.0	$2,071.0	$2,495.0	$2,179.0	$2,347.0	$2,320.0	$2,730.0	$2,825.0	$2,573.3	$2,384.2
Deferred income tax assets	$0.0	$0.0	$0.0	$581.0	$470.0	$278.0	$490.0	$213.0	$261.0	$368.0	$339.0	$296.0	$323.0	$302.0	**$300.0**	**$300.0**
Other	$2,642.0	$1,276.0	$1,005.0	$2,620.0	$541.0	$5,492.0	$1,910.0	$394.0	$172.0	$417.0	$230.0	$360.0	$988.0	$340.0	**$380.0**	**$380.0**
Total Current Assets	**$10,455.0**	**$8,155.0**	**$7,738.0**	**$11,096.0**	**$9,319.0**	**$11,759.0**	**$8,637.0**	**$6,735.0**	**$7,360.0**	**$7,551.0**	**$8,028.0**	**$10,456.0**	**$8,905.0**	**$9,025.0**	**$8,840.1**	**$9,028.6**
Property & equipment, net	$16,011.0	$14,616.0	$14,167.0	$13,260.0	$13,432.0	$9,073.0	$8,993.0	$10,141.0	$14,202.0	$12,688.0	$12,002.0	$11,817.0	$13,949.0	$13,672.0	$13,562.0	$13,477.0
Forestlands	$5,966.0	$4,197.0	$3,846.0	$3,979.0	$3,936.0	$2,127.0	$259.0	$770.0	$594.0	$757.0	$747.0	$660.0	$622.0	$557.0	**$598.0**	**$598.0**
Investments	$269.0	$239.0	$227.0	$678.0	$679.0	$616.0	$641.0	$1,276.0	$1,274.0	$1,077.0	$1,092.0	$657.0	$887.0	$733.0	**$727.0**	**$727.0**
Goodwill	$6,310.0	$6,543.0	$5,307.0	$4,793.0	$4,994.0	$3,621.0	$2,929.0	$3,650.0	$2,027.0	$2,290.0	$2,308.0	$2,346.0	$4,315.0	$3,987.0	**$4,007.0**	**$4,007.0**
Deferred charges & other	$3,098.0	$3,427.0	$2,507.0	$1,719.0	$1,857.0	$1,575.0	$2,575.0	$1,587.0	$1,456.0	$1,185.0	$1,191.0	$1,082.0	$3,475.0	$3,554.0	$2,695.9	$2,557.5
Total Assets	**$42,109.0**	**$37,177.0**	**$33,792.0**	**$35,525.0**	**$34,217.0**	**$28,771.0**	**$24,034.0**	**$24,159.0**	**$26,913.0**	**$25,548.0**	**$25,368.0**	**$27,018.0**	**$32,153.0**	**$31,528.0**	**$30,430.0**	**$30,395.1**
Liabilities & Shareholder's Equity																
ST debt	$2,115.0	$957.0	$0.0	$2,087.0	$506.0	$1,178.0	$692.0	$267.0	$828.0	$304.0	$313.0	$719.0	$444.0	$661.0	$661.0	$661.0
Accounts payable & accrued liab	$4,757.0	$4,307.0	$4,535.0	$4,538.0	$4,284.0	$3,156.0	$3,616.0	$3,575.0	$3,927.0	$3,708.0	$4,190.0	$3,976.0	$4,510.0	$4,466.0	$3,946.0	$3,670.6
Other current liabilities	$541.0	$77.0	$44.0	$645.0	$82.0	$621.0	$333.0	$0.0	$0.0	$0.0	$0.0	$43.0	$44.0	$0.0	**$0.0**	**$0.0**
Total Current Liabilities	**$7,413.0**	**$5,341.0**	**$4,579.0**	**$7,270.0**	**$4,872.0**	**$4,955.0**	**$4,641.0**	**$3,842.0**	**$4,755.0**	**$4,012.0**	**$4,503.0**	**$4,738.0**	**$4,998.0**	**$5,127.0**	**$4,607.0**	**$4,331.6**
Long term debt	$12,648.0	$12,457.0	$13,042.0	$13,450.0	$14,132.0	$11,019.0	$6,531.0	$6,353.0	$11,246.0	$8,729.0	$8,358.0	$9,189.0	$9,696.0	$8,827.0	$8,827.0	$8,827.0
Deferred taxes	$4,699.0	$3,339.0	$1,765.0	$1,387.0	$1,697.0	$684.0	$2,233.0	$2,919.0	$1,957.0	$2,425.0	$2,793.0	$2,497.0	$3,026.0	$3,765.0	**$3,587.0**	**$3,587.0**
Pension Benefit Obligation	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$317.0	$3,260.0	$2,765.0	$1,482.0	$2,375.0	$4,115.0	$2,205.0	**$1,950.0**	**$1,950.0**
Postretirement	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$709.0	$663.0	$538.0	$499.0	$476.0	$466.0	$412.0	**$400.0**	**$400.0**
Other LT liabilities	$5,315.0	$5,749.0	$7,032.0	$5,181.0	$5,262.0	$3,762.0	$2,666.0	$1,347.0	$631.0	$824.0	$649.0	$758.0	$3,216.0	$2,745.0	**$2,646.0**	**$2,646.0**
Total Liabilities	**$30,075.0**	**$26,886.0**	**$26,418.0**	**$27,288.0**	**$25,963.0**	**$20,420.0**	**$16,071.0**	**$15,487.0**	**$22,512.0**	**$19,293.0**	**$18,284.0**	**$20,033.0**	**$25,517.0**	**$23,081.0**	**$22,017.0**	**$21,741.6**
Shareholders' Equity	$12,034.0	$10,291.0	$7,374.0	$8,237.0	$8,254.0	$8,351.0	$7,963.0	$8,672.0	$4,401.0	$6,255.0	$7,084.0	$6,985.0	$6,636.0	$8,447.0	$8,413.0	$8,653.5
Total Liabilities & Equity	**$42,109.0**	**$37,177.0**	**$33,792.0**	**$35,525.0**	**$34,217.0**	**$28,771.0**	**$24,034.0**	**$24,159.0**	**$26,913.0**	**$25,548.0**	**$25,368.0**	**$27,018.0**	**$32,153.0**	**$31,528.0**	**$30,430.0**	**$30,395.1**

Balance Sheet Analysis	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Total Debt	$14,763.0	$13,414.0	$13,042.0	$15,537.0	$14,638.0	$12,197.0	$7,223.0	$6,620.0	$12,074.0	$9,033.0	$8,671.0	$9,908.0	$10,140.0	$9,488.0	$9,488.0	$9,488.0
Net Debt	$13,565.0	$12,190.0	$11,968.0	$13,174.0	$12,042.0	$10,556.0	$5,599.0	$5,715.0	$10,930.0	$7,141.0	$6,598.0	$5,914.0	$8,838.0	$7,686.0	$7,412.9	$6,994.0
Debt to Cap	55.1%	56.6%	63.9%	65.4%	63.9%	59.4%	47.6%	43.3%	73.3%	59.1%	55.0%	58.7%	60.4%	52.9%	53.0%	52.3%
Net Debt to Cap	53.0%	54.2%	61.9%	61.5%	59.3%	55.8%	41.3%	39.7%	71.3%	53.3%	48.2%	45.8%	57.1%	47.6%	46.8%	44.7%
Interest Coverage	3.1x	1.5x	2.2x	1.8x	2.2x	2.3x	2.8x	5.8x	3.4x	1.9x	3.0x	4.3x	3.2x	4.1x	4.5x	5.0x
Debt / EBITDA LTM	3.3x	4.1x	3.9x	5.9x	5.0x	4.4x	2.8x	2.4x	4.0x	3.3x	2.6x	2.7x	2.8x	2.3x	2.2x	2.1x
Net Debt / EBITDA	3.1x	3.7x	3.6x	5.0x	4.1x	3.8x	2.1x	2.0x	3.6x	2.6x	2.0x	1.6x	2.5x	1.9x	1.7x	1.5x
Book Value / Share	$26.77	$21.32	$15.32	$17.17	$16.90	$16.38	$16.29	$20.03	$10.41	$14.68	$16.37	$16.10	$15.11	$18.88	$19.51	$20.60
Days outstanding receivables	43.9	37.9	40.1	45.0	46.1	36.1	44.3	51.8	47.7	41.5	43.5	48.2	46.1	46.5	**48.5**	**52.0**
Receivables YOY%		(19.1%)	0.1%	(0.5%)	8.3%	(19.3%)	11.9%	16.6%	4.3%	(18.0%)	12.8%	14.7%	2.2%	5.4%	(6.5%)	(1.2%)
Days outstanding inventory	57.0	53.4	56.8	60.6	56.8	38.3	42.3	46.4	48.0	45.4	45.8	44.1	47.8	47.9	51.4	54.5
Inventory turnover	6.3x	6.7x	6.3x	5.9x	6.3x	9.4x	8.5x	7.8x	7.5x	7.9x	7.9x	8.2x	7.5x	7.5x	**7.0x**	**6.6x**
Inventory YOY %		(9.6%)	0.1%	(3.9%)	(1.8%)	(28.9%)	(1.2%)		20.5%	(12.7%)	7.7%	(1.2%)	17.7%	3.5%	(8.9%)	(7.4%)
Days outstanding payables	60.8	58.8	65.4	73.8	66.0	47.1	59.2	58.8	56.9	57.1	59.9	55.0	58.3	55.3	**54.5**	**55.0**
Sales YOY%		(6.4%)	(5.3%)	(11.4%)	5.5%	3.2%	(8.7%)	0.0%	5.0%	(10.8%)	7.5%	7.6%	6.9%	4.5%	(10.4%)	(7.8%)
ROIC	6.7%	4.3%	6.0%	3.9%	5.1%	4.6%	6.7%	7.8%	6.9%	5.7%	7.8%	9.4%	8.9%	10.4%	10.5%	11.3%
ROE	8.1%	2.1%	7.3%	4.0%	7.5%	6.3%	8.0%	11.1%	18.3%	6.0%	12.4%	19.5%	16.4%	16.1%	17.1%	20.2%
ROA	4.2%	2.8%	3.6%	2.6%	3.4%	3.3%	4.2%	4.9%	4.2%	3.4%	4.8%	5.9%	4.7%	5.9%	6.2%	6.7%
Sales	$28,180.0	$26,363.0	$24,976.0	$22,138.0	$23,359.0	$24,097.0	$21,995.0	$21,890.0	$24,829.0	$23,366.0	$25,179.0	$26,034.0	$27,833.0	$29,080.0	$26,065.6	$24,025.8
COGS	$20,082.0	$19,409.0	$18,256.0	$16,443.0	$17,225.0	$18,139.0	$16,248.0	$16,060.0	$18,703.0	$17,283.0	$18,464.0	$18,930.0	$20,562.0	$21,217.0	$18,013.4	$15,735.6
Interest Exp	$816.0	$929.0	$783.0	$705.0	$710.0	$593.0	$521.0	$297.0	$492.0	$669.0	$608.0	$547.0	$672.0	$612.0	$614.0	$611.0
EBIT	$2,508.0	$1,435.0	$1,740.0	$1,271.0	$1,580.0	$1,386.0	$1,451.0	$1,710.0	$1,670.0	$1,304.0	$1,819.0	$2,351.0	$2,120.0	$2,531.0	$2,761.8	$3,056.2
Tax Rate	28.7%	28.7%	30.0%	26.5%	26.0%	32.4%	29.9%	30.1%	31.6%	32.8%	32.6%	32.7%	29.4%	26.6%	31.9%	33.0%
Income taxes	$485.0	$145.0	$287.0	$150.0	$226.0	$257.0	$278.0	$426.0	$372.0	$208.0	$395.1	$590.0	$425.0	$510.0	$685.7	$806.9
Pre-tax Income	$1,692.0	$506.0	$957.0	$566.0	$870.0	$793.0	$930.0	$1,413.0	$1,178.0	$635.0	$1,211.0	$1,804.0	$1,448.0	$1,919.0	$2,147.8	$2,445.2
Net Income	$969.0	$214.0	$540.0	$333.0	$618.0	$524.0	$635.0	$963.0	$804.0	$378.0	$879.9	$1,361.0	$1,086.0	$1,362.0	$1,441.0	$1,746.2

Source: Company filings and Jefferies

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Chart 21: International Paper: Cash Flow Statement

International Paper Cash Flow Philip Ng, CFA 212-336-7369 ($ in millions, except per share data)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Net income	$969.0	$214.0	$540.0	$333.0	$618.0	$524.0	$635.0	$963.0	$804.0	$378.0	$879.9	$1,361.0	$1,086.0	$1,419.0	$1,441.0	$1,746.2
D&A	$1,916.0	$1,870.0	$1,587.0	$1,347.0	$1,357.0	$1,376.0	$1,158.0	$1,086.0	$1,347.0	$1,472.0	$1,456.0	$1,332.0	$1,486.0	$1,547.0	**$1,510.0**	**$1,510.0**
Deferred taxes	($323.0)	($584.0)	($399.0)	($336.0)	($78.0)	($665.0)	$1,619.0	$232.0	($81.0)	$160.0	$422.0	$317.0	$211.0	$146.0	**$127.3**	**$97.8**
Net losses on sales / impairment	$0.0	$629.0	($41.0)	$34.0	$139.0	$111.0	$1,496.0	($327.0)	$106.0	$59.0	($23.0)	$218.0	$86.0	($10.0)	**$0.0**	**$0.0**
Equity (earnings) loss, net	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$2.0	$49.0	($64.0)	($147.0)	($61.0)	$39.0	**$16.8**	**($86.4)**
Pension expense	($101.0)	($141.0)	($75.0)	$60.0	$111.0	$243.0	$377.0	$210.0	$123.0	$213.0	$231.0	$195.0	$302.0	$545.0	**$187.0**	**$187.0**
Pension contribution	($52.0)	($76.0)	($92.0)	$0.0	$0.0	$0.0	($1,000.0)	$0.0	$0.0	$0.0	($1,150.0)	($300.0)	($44.0)	($31.0)	**($450.0)**	**$0.0**
Changes in Working Capital	**($146.0)**	**$279.0**	**$368.0**	**($11.0)**	**($86.0)**	**($591.0)**	**($354.0)**	**($539.0)**	**$317.0**	**$591.0**	**($458.0)**	**($454.0)**	**$84.0**	**($486.0)**	**($23.9)**	**($45.1)**
Other / restructuring	$167.0	($477.0)	$206.0	$395.0	$327.0	$512.0	($2,708.0)	$262.0	$51.0	$1,733.0	$337.1	$153.0	($183.0)	($141.0)	**$40.0**	**$40.0**
Cash Flow from Operating Activities	**$2,430.0**	**$1,714.0**	**$2,094.0**	**$1,822.0**	**$2,388.0**	**$1,510.0**	**$1,223.0**	**$1,887.0**	**$2,669.0**	**$4,655.0**	**$1,631.0**	**$2,675.0**	**$2,967.0**	**$3,028.0**	**$2,848.2**	**$3,449.6**
Capex	($1,352.0)	($1,049.0)	($1,009.0)	($1,031.0)	($1,213.0)	($1,172.0)	($1,073.0)	($1,292.0)	($1,002.0)	($534.0)	($775.0)	($1,159.0)	($1,383.0)	($1,198.0)	**($1,400.0)**	**($1,425.0)**
Acquisition of business / equity investmen	($5,677.0)	($150.0)	($28.0)	$0.0	($186.0)	($116.0)	($103.0)	($817.0)	($6,107.0)	($17.0)	($152.0)	($379.0)	($3,734.0)	($505.0)	**$0.0**	**$0.0**
Proceeds from divestitures	$2,116.0	$1,552.0	$535.0	$71.0	$867.0	$1,440.0	$3,468.0	$1,675.0	$14.0	$0.0	$0.0	$50.0	$474.0	$726.0	**$400.0**	**$0.0**
Other	($1.0)	$106.0	$22.0	($307.0)	$587.0	($145.0)	($1,258.0)	($12.0)	($102.0)	($42.0)	$93.0	$1.0	($215.0)	$150.0	**$0.0**	**$0.0**
Cash Flow from Investing Activities	**($4,914.0)**	**$459.0**	**($480.0)**	**($1,267.0)**	**$55.0**	**$7.0**	**$1,034.0**	**($446.0)**	**($7,197.0)**	**($593.0)**	**($834.0)**	**($1,487.0)**	**($4,858.0)**	**($827.0)**	**($1,000.0)**	**($1,425.0)**
Debt Issuance	**($2,770.0)**	**($4,268.0)**	**($3,017.0)**	**($641.0)**	**($4,219.0)**	**($2,670.0)**	**$5,073.0**	**$78.0**	**$6,024.0**	**$3,229.0**	**$193.0**	**$1,766.0**	**$2,232.0**	**$241.0**	**$0.0**	**$0.0**
Repayments of debt	**$6,328.0**	**$2,889.0**	**$2,011.0**	**$2,116.0**	**$2,536.0**	**$968.0**	**($5,391.0)**	**($875.0)**	**($696.0)**	**($6,318.0)**	**($576.0)**	**($517.0)**	**($2,588.0)**	**($845.0)**	**$0.0**	**$0.0**
Dividends	($447.0)	($482.0)	($482.0)	($480.0)	($485.0)	($490.0)	($485.0)	($436.0)	($428.0)	($140.0)	($175.0)	($427.0)	($476.0)	($554.0)	($630.1)	($705.7)
Common stock issuance	$25.0	$25.0	$53.0	$80.0	$164.0	$23.0	$32.0	$128.0	$1.0	$0.0	$0.0	$0.0	$108.0	$298.0	**$40.0**	**$0.0**
Common stock repurchased	($66.0)	($64.0)	($169.0)	$0.0	$0.0	$0.0	($1,433.0)	($1,224.0)	($47.0)	($10.0)	($26.0)	($30.0)	($35.0)	($512.0)	**($885.0)**	**($800.0)**
Other	$324.0	($198.0)	($128.0)	($484.0)	($431.0)	($208.0)	($100.0)	$77.0	$5.0	($137.0)	($4.0)	($50.0)	($36.0)	($316.0)	**($100.0)**	**($100.0)**
Cash Flow from Financing Activities	**$3,394.0**	**($2,098.0)**	**($1,732.0)**	**$591.0**	**($2,435.0)**	**($2,377.0)**	**($2,304.0)**	**($2,252.0)**	**$4,859.0**	**($3,376.0)**	**($588.0)**	**$742.0**	**($795.0)**	**($1,688.0)**	**($1,575.1)**	**($1,605.7)**
FX on cash	**($165.0)**	**($49.0)**	**($32.0)**	**$143.0**	**$225.0**	**($95.0)**	**$30.0**	**$92.0**	**($92.0)**	**$62.0**	**($28.0)**	**($9.0)**	**($6.0)**	**($13.0)**	**$0.0**	**$0.0**
Net increase (decrease of cash)	**$745.0**	**$26.0**	**($150.0)**	**$1,289.0**	**$233.0**	**($955.0)**	**($17.0)**	**($719.0)**	**$239.0**	**$748.0**	**$181.0**	**$1,921.0**	**($2,692.0)**	**$500.0**	**$273.1**	**$418.9**
Cash beginning of year	$453.0	$1,198.0	$1,224.0	$1,074.0	$2,363.0	$2,596.0	$1,641.0	$1,624.0	$905.0	$1,144.0	$1,892.0	$2,073.0	$3,994.0	$1,302.0	$1,802.0	$2,075.1
Cash end of year	$1,198.0	$1,224.0	$1,074.0	$2,363.0	$2,596.0	$1,641.0	$1,624.0	$905.0	$1,144.0	$1,892.0	$2,073.0	$3,994.0	$1,302.0	$1,802.0	$2,075.1	$2,494.0

Free Cash Flow Analysis	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Operating Cash Flow	$2,430.0	$1,714.0	$2,094.0	$1,822.0	$2,388.0	$1,510.0	$1,223.0	$1,887.0	$2,669.0	$4,655.0	$1,631.0	$2,675.0	$2,967.0	$3,028.0	$2,848.2	$3,449.6
Capex	($1,352.0)	($1,049.0)	($1,009.0)	($1,031.0)	($1,213.0)	($1,172.0)	($1,073.0)	($1,292.0)	($1,002.0)	($534.0)	($775.0)	($1,159.0)	($1,383.0)	($1,198.0)	($1,400.0)	($1,425.0)
FCF	**$1,078.0**	**$665.0**	**$1,085.0**	**$791.0**	**$1,175.0**	**$338.0**	**$150.0**	**$595.0**	**$1,667.0**	**$4,121.0**	**$856.0**	**$1,516.0**	**$1,584.0**	**$1,830.0**	**$1,448.2**	**$2,024.6**
FCF (after dividends)	**$631.0**	**$183.0**	**$603.0**	**$311.0**	**$690.0**	**($152.0)**	**($335.0)**	**$159.0**	**$1,239.0**	**$3,981.0**	**$681.0**	**$1,089.0**	**$1,108.0**	**$1,276.0**	**$818.1**	**$1,318.9**
FCF / share	$2.40	$1.38	$2.25	$1.65	$2.41	$0.66	$0.31	$1.37	$3.94	$9.67	$1.98	$3.49	$3.61	$4.09	$3.36	$4.82

Key Cash Flow Ratios & Assumptions	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
D&A % Sales	6.8%	7.1%	6.4%	6.1%	5.8%	5.7%	5.3%	5.0%	5.4%	6.3%	5.8%	5.1%	5.3%	5.6%	5.2%	5.8%
Capex % Sales	4.8%	4.0%	4.0%	4.7%	5.2%	4.9%	4.9%	5.9%	4.0%	2.3%	3.1%	4.5%	5.0%	4.1%	5.4%	5.9%
Dividend / FCF	41.5%	72.5%	44.4%	60.7%	41.3%	145.0%	323.3%	73.3%	25.7%	3.4%	20.4%	28.2%	30.1%	30.3%	43.5%	34.9%
Dividend / Share	$0.99	$1.00	$1.00	$1.00	$0.99	$0.96	$0.99	$1.01	$1.01	$0.33	$0.40	$0.98	$1.08	$1.24	**$1.46**	**$1.68**
Dividend % of FCF	41.5%	72.5%	44.4%	60.7%	41.3%	145.0%	323.3%	73.3%	25.7%	3.4%	20.4%	28.2%	30.1%	30.3%	43.5%	34.9%

Source: Company filings and Jefferies

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Chart 22: Packaging Corp: Sum-of-the-Parts / MLP Model

				Parent			
		MLP Virgin Mills		Non- MLP			
	Current	PKG Interest	LP Interest	Packaging	UFS	Corporate	Total
EBITDA	$1,263	$238	$79	$795	$212	($61)	$1,263
Interest	$76	$13	$4	$40	$14	$5	$76
Capex	$285	$49	$16	$185	$23	$3	$276
Taxes	$283	$0	$0	$186	$50	($25)	$212
Other	($25)	$0	$0	($16)	($4)	$1	($19)
FCF / DCF	$595	$176	$59	$368	$121	($43)	$681
Debt	$1,948	$334	$111	$1,022	$352	$129	$1,948
Cash	$176	$0	$0	$132	$32	$12	$176
Equity Value	$6,180	$2,520	$840	$5,074	$844	($575)	$8,702
EV	$7,952	$2,854	$951	$5,963	$1,163	($458)	$10,475
Shares outstanding	99	99	99	99	99	99	99
Equity value / share	$62.30	$25.41	$8.47	$51.15	$8.50	($5.80)	$87.73
IDR value / share							$0.00
Total value / share							**$87.73**
% upside							40.8%
EV/EBITDA	6.3x	12.0x	12.0x	7.5x	5.5x	7.5x	8.3x
FCF (DCF) Yield	9.6%	7.0%	7.0%	7.3%	14.3%	7.4%	7.8%
FCF (DCF) /Share	$6.00	$1.78	$0.59	$3.71	$1.22	($0.43)	$6.87
Market Cap/FCF (DCF)	10.4x	14.3x	14.3x	13.8x	7.0x	13.4x	12.8x
Net Debt / EBITDA	1.4x	1.4x	1.4x	1.1x	1.5x	(1.9x)	1.4x

Source: Company filings and Jefferies

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Chart 23: Packaging Corp of America: Annual Earnings Model

Packaging Corp of America Annual Earnings Model Philip Ng, CFA 212-336-7369 ($ in millions, except per share data)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Packaging	**$1,921.9**	**$1,790.0**	**$1,735.9**	**$1,735.5**	**$1,890.1**	**$1,993.6**	**$2,187.1**	**$2,316.1**	**$2,360.5**	**$2,147.6**	**$2,435.7**	**$2,620.1**	**$2,843.9**	**$3,431.6**	**$4,508.8**	**$4,710.8**
EBIT	$344.8	$253.8	$153.4	$124.1	$116.9	$112.8	$234.4	$300.0	$259.4	$200.6	$294.1	$281.9	$359.8	$551.7	$736.8	$802.6
% margin	17.9%	14.2%	8.8%	7.2%	6.2%	5.7%	10.7%	13.0%	11.0%	9.3%	12.1%	10.8%	12.7%	16.1%	16.3%	17.0%
Paper														**$216.9**	**$1,189.1**	**$1,208.4**
EBIT														$15.1	$136.3	$156.5
% margin														7.0%	11.5%	13.0%
Intersegment Eliminations	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$16.7	$108.0	$112.2
Corporate expense	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$16.0	$67.8	$66.0
Total Sales	**$1,921.9**	**$1,790.0**	**$1,735.9**	**$1,735.5**	**$1,890.1**	**$1,993.6**	**$2,187.1**	**$2,316.1**	**$2,360.5**	**$2,147.6**	**$2,435.7**	**$2,620.1**	**$2,843.9**	**$3,665.2**	**$5,805.9**	**$6,031.3**
EBIT	$344.8	$253.8	$153.4	$124.1	$116.9	$112.8	$234.4	$300.0	$259.4	$200.6	$294.1	$281.9	$359.8	$550.8	$805.3	$893.1
% margin	17.9%	14.2%	8.8%	7.2%	6.2%	5.7%	10.7%	13.0%	11.0%	9.3%	12.1%	10.8%	12.7%	15.0%	13.9%	14.8%
Other income / (exp)	$4.0	($4.3)	($8.1)	($3.7)	($4.2)	($8.2)	($8.5)	($6.6)	($13.1)	($17.5)	($10.6)	($5.9)	($11.8)	($11.4)	($7.8)	($10.0)
Interest Expense	$92.6	$74.0	$67.7	$50.0	$29.6	$28.1	$31.2	$25.4	$31.7	$35.4	$32.3	$29.2	$38.2	$46.6	$86.2	$76.0
Pretax Income	**$256.2**	**$175.4**	**$77.6**	**$70.4**	**$83.1**	**$76.5**	**$194.7**	**$268.0**	**$214.6**	**$147.7**	**$251.2**	**$246.8**	**$309.8**	**$492.8**	**$711.3**	**$807.1**
% margin	13.3%	9.8%	4.5%	4.1%	4.4%	3.8%	8.9%	11.6%	9.1%	6.9%	10.3%	9.4%	10.9%	13.4%	12.3%	13.4%
Income taxes	$122.0	$67.4	$29.4	$28.3	$31.3	$29.3	$69.7	$97.9	$75.1	$51.8	$84.6	$85.2	$108.7	$173.1	$254.6	$282.5
Tax Rate (%)	47.6%	38.4%	37.9%	40.2%	37.7%	38.3%	35.8%	36.5%	35.0%	35.1%	33.7%	34.5%	35.1%	35.1%	35.8%	35.0%
Net Income	$134.2	$108.0	$48.2	$42.1	$51.8	$47.2	$125.0	$170.1	$139.5	$95.9	$166.6	$161.6	$201.1	$319.7	$456.7	$524.6
Diluted EPS	**$1.25**	**$0.99**	**$0.45**	**$0.40**	**$0.48**	**$0.44**	**$1.20**	**$1.61**	**$1.35**	**$0.94**	**$1.62**	**$1.61**	**$2.06**	**$3.28**	**$4.64**	**$5.29**
% growth		(20.5%)	(54.7%)	(10.5%)	19.6%	(9.4%)	174.2%	34.8%	(16.5%)	(30.5%)	73.4%	(0.8%)	28.1%	58.9%	41.5%	14.0%
Diluted Shares	107.5	108.8	107.2	104.6	107.6	108.1	104.5	105.5	103.6	102.5	102.6	100.4	97.5	97.5	98.5	99.2
EBITDA	**$485.7**	**$395.3**	**$302.8**	**$280.8**	**$275.8**	**$269.5**	**$389.2**	**$448.1**	**$407.2**	**$351.8**	**$450.4**	**$445.8**	**$531.1**	**$752.6**	**$1,175.3**	**$1,263.1**
% margin	25.3%	22.1%	17.4%	16.2%	14.6%	13.5%	17.8%	19.3%	17.3%	16.4%	18.5%	17.0%	18.7%	20.5%	20.2%	20.9%

Source: Company filings and Jefferies

Philip Ng, CFA, Equity Analyst, (212) 336-7369, png@jefferies.com

Chart 24: Packaging Corp of America: Balance Sheet

Packaging Corp of America
Balance Sheet
Philip Ng, CFA 212-336-7369

($ in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Assets																
Cash	$7.9	$82.5	$131.3	$172.0	$213.3	$112.7	$161.8	$228.1	$149.4	$260.7	$196.6	$156.3	$207.4	$191.0	$135.3	$175.5
Accounts receivable	$216.0	$170.2	$175.7	$190.9	$216.6	$213.2	$263.2	$275.9	$254.9	$243.4	$293.2	$320.0	$352.1	$643.1	$661.2	$686.9
Inventories	$159.7	$170.2	$160.5	$166.3	$179.3	$191.8	$195.9	$204.4	$207.0	$213.4	$241.1	$254.7	$268.8	$522.5	$571.5	$582.2
Prepaid expenses	$5.8	$12.1	$22.6	$7.6	$8.7	$6.8	$6.5	$6.7	$6.7	$13.0	$17.0	$18.3	$20.9	$32.1	$34.8	$36.2
Deferred income taxes	$14.4	$13.3	$19.4	$29.7	$59.1	$29.0	$19.3	$17.9	$15.2	$26.8	$50.2	$62.8	$22.3	$23.0	$23.0	$23.0
Alternative fuel credits	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$127.8	$0.0	$0.0	$65.5	$75.6	$0.0	$0.0
Total Current Assets	**$403.7**	**$448.2**	**$509.6**	**$566.5**	**$677.1**	**$553.5**	**$646.7**	**$733.0**	**$633.2**	**$885.2**	**$798.0**	**$812.1**	**$937.0**	**$1,487.2**	**$1,425.8**	**$1,503.8**
Property & equipment, net	$1,456.0	$1,451.2	$1,409.0	$1,372.8	$1,345.2	$1,320.5	$1,252.3	$1,215.3	$1,221.0	$1,182.5	$1,338.0	$1,476.7	$1,366.1	$2,805.7	$2,835.7	$2,750.7
Goodwill	$0.0	$1.3	$1.8	$2.3	$3.7	$34.2	$37.2	$37.2	$37.2	$38.9	$38.9	$58.2	$67.2	$526.8	$526.8	$526.8
Intangibles	$1.8	$2.7	$2.1	$3.2	$22.0	$30.9	$15.8	$14.7	$14.5	$11.8	$11.0	$25.0	$38.3	$310.5	$298.5	$286.5
Other LT assets	$80.7	$68.3	$60.2	$40.3	$34.9	$34.2	$35.0	$35.7	$33.9	$34.5	$38.4	$40.5	$45.2	$69.7	$145.1	$153.5
Total Assets	**$1,942.1**	**$1,971.8**	**$1,982.6**	**$1,985.1**	**$2,082.8**	**$1,973.3**	**$1,987.0**	**$2,035.9**	**$1,939.7**	**$2,152.8**	**$2,224.3**	**$2,412.5**	**$2,453.8**	**$5,200.0**	**$5,232.0**	**$5,221.4**
Liabilities & Shareholder's Equity																
ST debt	$0.2	$0.1	$113.1	$112.8	$109.2	$118.0	$119.1	$278.6	$109.0	$109.0	$109.0	$15.0	$15.0	$39.0	$39.0	$39.0
Accounts payable	$113.7	$93.9	$85.8	$126.9	$112.9	$124.9	$119.4	$132.2	$101.1	$126.8	$154.1	$154.9	$117.5	$357.4	$370.9	$385.3
Other current liabilities	$104.6	$98.0	$97.9	$103.3	$113.0	$129.2	$149.8	$151.8	$151.9	$135.1	$142.4	$206.6	$127.3	$264.1	$265.0	$265.0
Total Current Liabilities	**$218.5**	**$191.9**	**$296.8**	**$343.0**	**$335.1**	**$372.1**	**$388.3**	**$562.6**	**$362.0**	**$371.0**	**$405.6**	**$376.5**	**$259.8**	**$660.5**	**$674.9**	**$689.3**
Long term debt	$869.2	$795.2	$629.1	$585.2	$585.7	$577.2	$567.8	$398.5	$548.4	$548.7	$549.1	$793.4	$778.6	$2,508.8	$2,258.8	$1,908.8
Deferred taxes	$151.7	$194.5	$241.4	$230.9	$306.6	$292.7	$261.0	$240.7	$208.9	$205.2	$9.2	$11.9	$125.1	$434.8	$435.0	$435.0
Pension & postretirement	$0.0	$0.0	$0.0	$0.0	$0.0	$40.3	$65.9	$48.3	$86.0	$78.9	$97.9	$148.7	$164.5	$193.5	$194.0	$194.0
Other LT liabilities	$15.2	$20.4	$19.4	$28.5	$37.8	$9.6	$12.2	$24.9	$50.6	$50.2	$153.5	$153.0	$156.2	$89.2	$90.0	$90.0
Total Liabilities	**$1,254.7**	**$1,201.9**	**$1,186.7**	**$1,187.6**	**$1,265.2**	**$1,291.9**	**$1,295.2**	**$1,275.0**	**$1,255.8**	**$1,254.0**	**$1,215.3**	**$1,483.6**	**$1,484.3**	**$3,887.0**	**$3,652.8**	**$3,317.2**
Shareholders' Equity	$687.4	$769.8	$795.9	$797.5	$817.6	$681.4	$691.8	$760.9	$683.9	$898.8	$1,009.0	$928.9	$969.5	$1,313.0	$1,579.2	$1,904.2
Total Liabilities & Equity	**$1,942.1**	**$1,971.8**	**$1,982.6**	**$1,985.1**	**$2,082.8**	**$1,973.3**	**$1,987.0**	**$2,035.9**	**$1,939.7**	**$2,152.8**	**$2,224.3**	**$2,412.5**	**$2,453.8**	**$5,200.0**	**$5,232.0**	**$5,221.4**

Balance Sheet Analysis	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Total Debt	$869.4	$795.2	$742.2	$698.0	$694.9	$695.2	$686.9	$677.0	$657.4	$657.7	$658.1	$808.4	$793.6	$2,547.8	$2,297.8	$1,947.8
Net Debt	$861.5	$712.8	$610.9	$525.9	$481.6	$582.5	$525.1	$448.9	$508.0	$397.0	$461.5	$652.1	$586.2	$2,356.9	$2,162.5	$1,772.3
Debt to Cap	55.8%	50.8%	48.3%	46.7%	45.9%	50.5%	49.8%	47.1%	49.0%	42.3%	39.5%	46.5%	45.0%	66.0%	59.3%	50.6%
Net Debt to Cap	55.6%	48.1%	43.4%	39.7%	37.1%	46.1%	43.2%	37.1%	42.6%	30.6%	31.4%	41.2%	37.7%	64.2%	57.8%	48.2%
Interest Coverage	3.7x	3.4x	2.3x	2.5x	3.9x	4.0x	7.5x	11.8x	8.2x	5.7x	9.1x	9.7x	9.4x	11.8x	9.3x	11.8x
Debt / EBITDA LTM	1.8x	2.0x	2.5x	2.5x	2.5x	2.6x	1.8x	1.5x	1.6x	1.9x	1.5x	1.8x	1.5x	3.3x	2.0x	1.5x
Net Debt / EBITDA	1.8x	1.8x	2.0x	1.9x	1.7x	2.2x	1.3x	1.0x	1.2x	1.1x	1.0x	1.5x	1.1x	3.1x	1.8x	1.4x
Book Value / Share	$6.39	$7.08	$7.42	$7.62	$7.60	$6.30	$6.62	$7.21	$6.60	$8.77	$9.81	$9.53	$9.95	$13.46	$16.04	$19.20
Days outstanding receivables	40.5	34.2	36.4	39.6	41.3	38.5	43.3	42.9	38.9	40.8	43.3	44.0	44.6	63.2	41.0	41.0
Receivables YOY%		(21.2%)	3.3%	8.6%	13.5%	(1.6%)	23.4%	4.8%	(7.6%)	(4.5%)	20.4%	9.2%	10.0%	82.6%	2.8%	3.9%
Days outstanding inventory	40.5	44.7	41.0	41.6	40.5	40.9	40.5	41.1	39.9	44.7	45.7	44.1	43.9	67.5	45.0	44.4
Inventory turnover	8.9x	8.1x	8.8x	8.6x	8.9x	8.8x	8.9x	8.8x	9.0x	8.1x	7.9x	8.2x	8.2x	5.3x	8.0x	8.1x
Inventory YOY %		6.5%	(5.7%)	3.6%	7.8%	7.0%	2.1%		1.3%	3.1%	13.0%	5.6%	5.5%	94.4%	9.4%	1.9%
Days outstanding payables	21.3	18.9	17.8	26.3	21.5	22.5	19.7	20.5	15.4	21.3	22.8	21.3	14.9	35.1	23.0	23.0
Sales YOY%		(6.9%)	(3.0%)	(0.0%)	8.9%	5.5%	9.7%	0.0%	5.0%	(10.8%)	7.5%	7.6%	8.5%	28.9%	58.4%	3.9%
Prepaid exp % sales	0.3%	0.7%	1.3%	0.4%	0.5%	0.3%	0.3%	0.3%	0.3%	0.6%	0.7%	0.7%	0.7%	0.9%	0.6%	0.6%
ROIC	11.6%	10.0%	6.2%	5.0%	4.8%	5.1%	10.9%	13.2%	12.6%	8.4%	11.7%	10.6%	13.2%	9.3%	13.3%	15.1%
ROE	19.5%	14.0%	6.1%	5.3%	6.3%	6.9%	18.1%	22.4%	20.4%	10.7%	16.5%	17.4%	20.7%	24.3%	28.9%	27.6%
ROA	9.3%	7.9%	4.8%	3.7%	3.5%	3.5%	7.6%	9.4%	8.7%	6.1%	8.8%	7.7%	9.5%	6.9%	9.9%	11.1%

Source: Company filings and Jefferies

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Chart 25: Packaging Corp of America: Cash Flow Statement

Packaging Corp of America Cash Flow Philip Ng, CFA 212-336-7369 ($ in millions, except per share data)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Net income	$51.8	$47.2	$125.0	$170.1	$139.5	$95.9	$166.6	$161.6	$201.1	$319.7	$456.7	$524.6
D&A	$158.9	$156.7	$154.8	$148.1	$147.8	$151.2	$156.3	$164.0	$171.3	$217.9	$370.0	$370.0
Amoritzation of financing costs & other	($2.4)	($2.4)	($2.4)	($2.4)	($1.7)	($1.1)	($1.2)	($1.1)	$4.1	$0.0	$0.0	$0.0
Share-based comp exp	$0.7	$1.7	$6.1	$8.4	$8.7	$7.3	$7.1	$9.7	$11.7	$14.8	$16.0	$16.0
Deferred taxes	$41.3	$15.8	($20.1)	($11.0)	($10.8)	($13.8)	$7.2	$27.3	$106.9	($87.3)	$38.0	$6.0
Loss on disposals PP&E	$2.0	$7.2	$4.1	$4.1	$5.8	$6.6	$8.9	$7.1	$7.3	$9.4	$0.0	$0.0
Changes in Working Capital	**($32.1)**	**$18.4**	**($21.1)**	**($17.5)**	**($16.0)**	**$17.9**	**($33.7)**	**($19.6)**	**($81.0)**	**($0.4)**	**($55.4)**	**($23.4)**
Other	$27.3	($20.3)	$21.3	$17.8	$12.1	$24.3	$72.5	$16.0	$63.6	$134.5	$20.0	$10.0
Cash Flow from Operating Activities	**$215.3**	**$242.7**	**$246.6**	**$300.1**	**$269.3**	**$306.1**	**$349.9**	**$345.5**	**$404.2**	**$608.2**	**$789.9**	**$879.9**
Capex	($108.6)	($128.1)	($88.2)	($113.4)	($133.0)	($114.2)	($320.2)	($280.2)	($128.5)	($234.4)	($400.0)	($285.0)
Additions LT assets	$28.9	$15.0	($4.3)	($0.9)	($3.3)	($2.1)	($2.6)	($13.1)	($1.1)	$0.0	($5.0)	($5.0)
Acquisition of business	($38.4)	($48.7)	($4.3)	$0.0	$0.0	($3.1)	$0.0	($57.3)	($35.4)	($1,174.5)	$0.0	$0.0
Divestitures / Other	$1.3	$0.2	$2.8	$1.1	$1.7	$0.1	$1.5	$0.4	$57.5	($2.5)	$0.0	$0.0
Cash Flow from Investing Activities	**($116.8)**	**($161.5)**	**($94.0)**	**($113.2)**	**($134.5)**	**($119.3)**	**($321.3)**	**($350.2)**	**($107.5)**	**($1,411.4)**	**($405.0)**	**($290.0)**
Debt Issuance	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$149.9**	**$0.0**	**$0.0**	**$150.0**	**$397.0**	**$1,998.1**	**$0.0**	**$0.0**
Repayments of debt	**($4.0)**	**($0.2)**	**($9.1)**	**($10.1)**	**($170.3)**	**($0.6)**	**($0.6)**	**($0.7)**	**($437.2)**	**($1,074.8)**	**($250.0)**	**($350.0)**
Dividends	($63.7)	($96.9)	($105.1)	($105.0)	($125.1)	($76.9)	($61.8)	($76.0)	($117.9)	($109.1)	($157.5)	($166.7)
Common stock issuance / stock options	$10.4	$8.2	$7.8	$20.3	$2.4	$1.6	$7.5	$7.0	$19.9	$2.8	$7.0	$7.0
Common stock repurchased	$0.0	($93.1)	$0.0	($30.5)	($65.7)	$0.0	($38.9)	($125.0)	($45.2)	($7.8)	($40.0)	($40.0)
Other	$0.0	$0.1	$2.9	$4.6	($4.8)	$0.4	$1.1	$9.1	($62.4)	($22.5)	$0.0	$0.0
Cash Flow from Financing Activities	**($57.2)**	**($181.9)**	**($103.5)**	**($120.7)**	**($213.5)**	**($75.5)**	**($92.8)**	**($35.6)**	**($245.6)**	**$786.8**	**($440.5)**	**($549.7)**
Net increase (decrease of cash)	**$41.3**	**($100.7)**	**$49.2**	**$66.3**	**($78.7)**	**$111.3**	**($64.2)**	**($40.2)**	**$51.1**	**($16.4)**	**($55.7)**	**$40.2**
Cash beginning of year	$172.0	$213.3	$112.6	$161.8	$228.1	$149.4	$260.7	$196.6	$156.3	$207.4	$191.0	$135.3
Cash end of year	$213.3	$112.6	$161.8	$228.1	$149.4	$260.7	$196.6	$156.3	$207.4	$191.0	$135.3	$175.5

Free Cash Flow Analysis	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Operating Cash Flow	$215.3	$242.7	$246.6	$300.1	$269.3	$306.1	$349.9	$345.5	$404.2	$608.2	$789.9	$879.9
Capex	($108.6)	($128.1)	($88.2)	($113.4)	($133.0)	($114.2)	($320.2)	($280.2)	($128.5)	($234.4)	($400.0)	($285.0)
FCF	**$106.7**	**$114.6**	**$158.4**	**$186.7**	**$136.4**	**$191.9**	**$29.7**	**$65.3**	**$275.7**	**$373.8**	**$389.9**	**$594.9**
FCF (post dividends)	**$43.0**	**$17.7**	**$53.3**	**$81.7**	**$11.3**	**$115.0**	**($32.1)**	**($10.7)**	**$157.8**	**$264.6**	**$232.3**	**$428.2**
FCF / share	$0.99	$1.06	$1.52	$1.77	$1.32	$1.87	$0.29	$0.65	$2.83	$3.83	$3.96	$6.00

Key Cash Flow Ratios & Assumptions	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
D&A % Sales	8.4%	7.9%	7.1%	6.4%	6.3%	7.0%	6.4%	6.3%	6.0%	5.0%	5.0%	5.0%
Capex % Sales	(5.7%)	(6.4%)	(4.0%)	(4.9%)	(5.6%)	(5.3%)	(13.1%)	(10.7%)	(4.5%)	(3.0%)	(3.0%)	(3.0%)
CapEx / D&A Ratio	68.3%	81.8%	57.0%	76.6%	90.0%	75.5%	204.9%	170.9%	75.0%	107.6%	108.1%	77.0%
Dividend / Share	($0.59)	($0.90)	($1.01)	($1.00)	($1.21)	($0.75)	($0.60)	($0.76)	($1.21)	($1.12)	($1.60)	($1.68)

Source: Company filings and Jefferies

Philip Ng, CFA, Equity Analyst, (212) 336-7369, png@jefferies.com

Chart 26: Rock-Tenn: Sum-of-the-Parts / MLP Model

				Parent				
		MLP Virgin Mills		Non- MLP	Consumer			
	Current	RKT Interest	LP Interest	Corrugated Packaging	Packaging	Other RKT	Corporate	Total
EBITDA	$1,602	$245	$82	$865	$335	$135	($60)	$1,602
Interest	$93	$12	$4	$56	$13	$5	$4	$93
Capex	$500	$38	$13	$257	$89	$26	$30	$453
Taxes	$322	$0	$0	$169	$80	$37	($28)	$257
Other	($23)	$0	$0	($12)	($5)	($2)	$1	($18)
FCF / DCF	$665	$196	$65	$371	$149	$65	($65)	$781
Debt	$2,845	$366	$122	$1,709	$388	$151	$108	$2,845
Cash	$453	$0	$0	$350	$62	$24	$17	$453
Equity Value	$6,575	$2,607	$869	$4,264	$2,188	$884	($542)	$10,270
EV	$8,966	$2,973	$991	$5,623	$2,514	$1,011	($451)	$12,661
Shares outstanding	142	142	142	142	142	142	142	142
Equity value / share	$46.30	$18.36	$6.12	$30.02	$15.41	$6.23	($3.81)	$72.32
IDR value / share								$0.00
Total value / share								**$72.32**
% upside								56.2%
EV/EBITDA	5.6x	12.1x	12.1x	6.5x	7.5x	7.5x	7.5x	7.9x
FCF (DCF) Yield	10.1%	7.5%	7.5%	8.7%	6.8%	7.4%	11.9%	7.6%
FCF (DCF) /Share	$4.68	$1.38	$0.46	$2.61	$1.05	$0.46	($0.45)	$5.50
Market Cap/FCF (DCF)	9.9x	13.3x	13.3x	11.5x	14.7x	13.6x	8.4x	13.2x
Net Debt / EBITDA	1.5x	1.5x	1.5x	1.6x	1.0x	0.9x	(1.5x)	1.5x

Source: Company data, Jefferies estimates

Philip Ng, CFA, Equity Analyst, (212) 336-7369, png@jefferies.com

Chart 27: Rock-Tenn: Annual Earnings Model

Rock-Tenn Company
Annual Earnings Model
Philip Ng, CFA 212-336-7369

Fiscal Year Ends September 30,

($ in millions, except per share da	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Consumer Packaging	$797.4	$806.1	$790.2	$801.4	$908.1	$994.0	$1,415.6	$1,459.6	$1,551.4	$1,503.1	$1,578.1
EBIT	$39.7	$48.1	$50.5	$38.6	$38.0	$36.4	$74.7	$51.0	$119.8	$175.5	$185.7
% margin	5.0%	6.0%	6.4%	4.8%	4.2%	3.7%	5.3%	3.5%	7.7%	11.7%	11.8%
Corrugated Packaging	-	-	-	-	$89.9	$118.5	$202.8	$236.7	$607.5	$752.9	$800.6
EBIT	-	-	-	-	$5.1	$3.5	$10.5	$8.4	$88.5	$178.9	$139.7
% margin	-	-	-	-	5.7%	3.0%	5.2%	3.5%	14.6%	23.8%	17.4%
Merchandising Displays	$238.8	$263.4	$290.1	$291.2	$237.8	$226.3	$233.2	$305.8	$350.8	$320.6	$333.2
EBIT	$27.6	$30.2	$32.8	$28.6	$24.0	$17.6	$16.5	$38.7	$41.9	$31.9	$36.3
% margin	11.6%	11.5%	11.3%	9.8%	10.1%	7.8%	7.1%	12.7%	11.9%	10.0%	10.9%
Specialty Paperboard	$588.5	$524.5	$516.2	$509.9	$539.9	$615.4	$327.5	$361.7	$392.9	$306.9	$368.7
EBIT	$51.4	$41.6	$24.1	$21.8	$15.7	$31.6	$26.9	$114.2	$30.3	$26.5	$26.0
% margin	8.7%	7.9%	4.7%	4.3%	2.9%	5.1%	8.2%	31.6%	7.7%	8.6%	7.1%
Intersegment Eliminations	$161.4	$152.4	$160.0	$169.2	$194.4	$220.7	$41.0	$48.0	$63.7	$71.2	$79.2
Non-allocated exp	$8.2	$5.4	$6.4	$9.1	$12.5	$14.3	$21.8	$23.3	$28.1	$33.6	$36.0
Total Sales	**$1,463.3**	**$1,441.6**	**$1,436.5**	**$1,433.3**	**$1,581.3**	**$1,733.5**	**$2,138.1**	**$2,315.8**	**$2,838.9**	**$2,812.3**	**$3,001.4**
EBIT	$110.5	$114.5	$101.0	$79.8	$70.3	$74.8	$106.8	$189.0	$252.4	$379.2	$351.7
% margin	7.6%	7.9%	7.0%	5.6%	4.4%	4.3%	5.0%	8.2%	8.9%	13.5%	11.7%
Interest Expense	$35.5	$35.0	$26.4	$26.9	$23.6	$36.6	$55.6	$49.8	$85.5	$96.7	$75.5
Interest Income & Other	$0.4	$0.5	$0.5	$0.1	($0.1)	$0.5	$1.6	($1.3)	$1.6	$0.0	$0.7
Equity earnings / (loss)	-	($2.0)	($0.3)	($0.4)	$0.1	($1.0)	$1.9	$1.1	$2.4	$0.1	$0.8
Minoritiy Interest	($5.0)	($2.4)	($3.0)	($3.2)	($3.4)	($4.8)	($6.4)	($1.0)	($5.3)	($3.6)	($5.1)
Pretax Income	**$70.4**	**$75.5**	**$71.8**	**$49.4**	**$43.3**	**$32.8**	**$48.3**	**$138.0**	**$165.6**	**$279.0**	**$272.6**
% Margin	4.8%	5.2%	5.0%	3.4%	2.7%	1.9%	2.3%	6.0%	5.8%	9.9%	9.1%
Income taxes	$35.2	$26.4	$21.2	$18.1	$13.5	$6.5	$16.9	$50.9	$59.6	$99.4	$98.2
Tax Rate (%)	50.0%	35.0%	29.5%	36.7%	31.2%	19.8%	35.0%	36.9%	36.0%	35.6%	36.0%
Net Income	$35.2	$49.1	$50.6	$31.3	$29.8	$26.3	$31.4	$87.1	$106.0	$179.6	$174.4
Dist & undist income	-	-	-	-	-	-	-	-	-	-	($1.5)
Net Income to Common	**$35.2**	**$49.1**	**$50.6**	**$31.3**	**$29.8**	**$26.3**	**$31.4**	**$87.1**	**$106.0**	**$179.6**	**$172.9**
Diluted EPS	**$0.51**	**$0.74**	**$0.74**	**$0.45**	**$0.42**	**$0.36**	**$0.42**	**$1.10**	**$1.38**	**$2.32**	**$2.21**
% growth		43.9%	0.1%	(38.8%)	(6.7%)	(13.2%)	16.4%	160.2%	25.5%	67.7%	(4.8%)
Diluted Shares	69.0	66.8	68.7	69.5	71.0	72.2	74.0	78.9	76.6	77.4	78.2
EBITDA	**$187.6**	**$192.1**	**$169.1**	**$152.5**	**$144.5**	**$158.8**	**$211.1**	**$292.7**	**$385.8**	**$529.2**	**$499.1**
% margin	12.8%	13.3%	11.8%	10.6%	9.1%	9.2%	9.9%	12.6%	13.6%		

	2011	2012	2013	2014E	2015E
Consumer Packaging	$1,910.3	$1,919.3	$1,898.7	$1,969.7	$2,015.1
EBIT	$222.6	$277.2	$231.3	$236.1	$237.8
% margin	11.7%	14.4%	12.2%	12.0%	11.8%
Corrugated Packaging	$2,766.3	$6,169.4	$6,661.7	$6,923.8	$7,253.0
EBIT	$300.5	$370.8	$678.9	$674.1	$726.2
% margin	10.9%	6.0%	10.2%	9.7%	10.0%
Merchandising Display	$468.0	$656.0	$674.6	$858.8	$946.3
EBIT	$53.2	$70.3	$64.4	$84.4	$97.8
% margin	11.4%	10.7%	9.5%	9.8%	10.3%
Recycling	$383.3	$650.5	$494.1	$363.7	$400.5
EBIT	$14.8	$7.1	$14.4	$7.7	$10.5
% margin	3.9%	1.1%	2.9%	2.1%	2.6%
Intersegment Eliminations	$128.3	$187.6	$183.7	$200.5	$212.3
Non-allocated exp	$79.5	$109.5	$92.2	$72.5	$75.0
Total Sales	**$5,399.6**	**$9,207.6**	**$9,545.4**	**$9,915.5**	**$10,402.6**
EBIT	$511.6	$615.9	$896.8	$929.8	$997.3
% margin	9.5%	6.7%	9.4%	9.4%	9.6%
Interest Expense	$88.9	$119.7	$106.9	$94.1	$93.0
Interest Income & Other	$4.8	$1.3	($0.9)	($0.7)	$1.5
Equity earnings / (loss)	$1.5	$2.3	$3.8	$9.0	$6.0
Minoritiy Interest	($4.9)	($3.7)	($5.4)	($3.8)	($6.0)
Pretax Income	**$424.1**	**$496.1**	**$787.4**	**$840.2**	**$905.8**
% Margin	7.9%	5.4%	8.2%	8.5%	8.7%
Income taxes	$143.6	$172.9	$253.8	$318.1	$321.5
Tax Rate (%)	33.9%	34.9%	32.2%	37.9%	35.5%
Net Income	$280.5	$323.2	$533.6	$522.1	$584.2
Dist & undist income	($1.4)	($0.3)	($0.2)	($0.4)	($0.5)
Net Income to Common	**$279.1**	**$322.9**	**$533.4**	**$521.7**	**$583.7**
Diluted EPS	**$2.78**	**$2.24**	**$3.65**	**$3.57**	**$4.11**
% growth	25.7%	(19.4%)	63.0%	(2.2%)	15.1%
Diluted Shares	100.5	144.2	146.1	146.1	142.0
EBITDA	**$789.9**	**$1,150.2**	**$1,449.0**	**$1,517.8**	**$1,602.3**
% margin	14.6%	12.5%	15.2%	15.3%	15.4%

Source: Company filings and Jefferies

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Chart 28: Rock-Tenn Company Balance Sheet

Rock-Tenn Company
Balance Sheet
Philip Ng, CFA 212-336-7369

($ in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Assets																
Cash	$5.4	$5.2	$6.6	$14.2	$28.7	$26.8	$6.9	$10.9	$52.8	$11.8	$15.9	$82.8	$77.8	$45.7	$102.5	$453.2
Accounts receivable	$156.2	$157.8	$151.1	$163.1	$177.4	$199.5	$230.8	$230.6	$321.5	$340.2	$333.5	$1,109.6	$1,075.6	$1,134.9	$1,101.7	$1,155.8
Inventories	$99.6	$102.0	$102.6	$118.4	$127.4	$202.0	$218.9	$224.4	$283.0	$275.1	$269.5	$849.8	$861.9	$937.9	$966.0	$1,010.5
Other current assets	$8.1	$6.1	$61.9	$70.4	$23.8	$33.9	$29.0	$28.6	$51.9	$31.2	$90.1	$186.7	$174.5	$297.9	$290.0	$300.0
Total Current Assets	**$269.2**	**$271.1**	**$322.1**	**$366.1**	**$357.2**	**$462.2**	**$485.6**	**$494.5**	**$709.2**	**$658.3**	**$709.0**	**$2,228.9**	**$2,189.8**	**$2,416.4**	**$2,460.2**	**$2,919.6**
Property & equipment, net	$592.5	$588.7	$538.2	$579.5	$552.8	$885.0	$850.6	$837.5	$1,333.1	$1,276.1	$1,250.0	$5,527.2	$5,611.4	$5,554.7	$5,531.7	$5,426.7
Goodwill	$268.5	$259.7	$260.4	$291.8	$297.1	$350.9	$356.6	$364.5	$727.0	$736.4	$748.8	$1,839.4	$1,865.3	$1,862.1	$1,914.1	$1,914.1
Intangibles	$0.0	$0.0	$0.0	$21.8	$19.0	$61.9	$55.1	$67.6	$176.9	$151.3	$151.5	$799.4	$795.1	$699.4	$665.0	$574.0
Investment in uncosolidated entities	$0.0	$0.0	$0.0	$0.0	$0.0	$19.5	$21.6	$28.9	$29.4	$23.8	$23.3	$0.0	$0.0	$0.0	$0.0	$0.0
Other assets	$28.7	$45.0	$52.4	$32.1	$57.7	$18.9	$14.5	$7.7	$37.5	$38.5	$32.3	$171.1	$225.5	$200.8	$404.7	$460.6
Total Assets	**$1,159.0**	**$1,164.4**	**$1,173.1**	**$1,291.4**	**$1,283.8**	**$1,798.4**	**$1,784.0**	**$1,800.7**	**$3,013.1**	**$2,884.4**	**$2,914.9**	**$10,566.0**	**$10,687.1**	**$10,733.4**	**$10,975.7**	**$11,295.0**
Liabilities & Shareholder's Equity																
Current portion of LT debt	$20.3	$97.2	$62.9	$12.9	$83.9	$7.1	$40.8	$46.0	$245.1	$69.0	$231.6	$143.3	$261.3	$2.9	$2.9	$2.9
Accounts payable	$77.9	$79.6	$71.7	$84.2	$94.5	$116.4	$141.8	$161.6	$241.5	$233.9	$252.3	$780.7	$708.9	$802.1	$812.5	$852.4
Accrued comp & benefits	$35.4	$35.9	$38.0	$46.9	$48.8	$50.9	$65.7	$73.8	$95.3	$88.1	$90.7	$220.0	$211.4	$249.0	$250.0	$250.0
Other current liabilities	$26.8	$46.6	$49.2	$43.5	$42.4	$49.8	$57.7	$63.5	$65.8	$58.3	$56.6	$174.3	$226.7	$189.4	$200.0	$200.0
Total Current Liabilities	**$160.4**	**$259.2**	**$221.8**	**$187.5**	**$269.5**	**$224.2**	**$306.0**	**$344.9**	**$647.7**	**$449.3**	**$631.2**	**$1,318.3**	**$1,408.3**	**$1,243.4**	**$1,265.4**	**$1,305.3**
Long term debt	$514.5	$388.5	$390.3	$489.0	$381.7	$895.7	$754.9	$676.3	$1,459.0	$1,298.7	$897.3	$3,302.5	$3,151.2	$2,841.9	$2,841.9	$2,841.9
Pension & Postretirement Liab	$0.0	$0.0	$0.0	$0.0	$79.3	$106.8	$75.9	$47.3	$70.8	$161.5	$165.3	$1,586.2	$1,647.3	$1,093.5	$887.2	$887.2
Deferred taxes	$81.4	$88.0	$84.3	$93.8	$84.9	$83.0	$99.8	$125.7	$153.3	$149.2	$166.4	$827.1	$888.8	$1,063.1	$1,191.8	$1,191.8
Other LT liabilities	$16.4	$25.9	$71.4	$99.0	$23.3	$15.9	$20.0	$7.6	$24.2	$31.1	$37.3	$159.6	$184.8	$178.7	$180.0	$180.0
Total Liabilities	**$772.7**	**$761.7**	**$767.9**	**$869.4**	**$838.8**	**$1,325.6**	**$1,256.6**	**$1,201.8**	**$2,355.0**	**$2,089.8**	**$1,897.5**	**$7,193.7**	**$7,280.4**	**$6,420.6**	**$6,366.3**	**$6,406.2**
Minority interest	$0.0	$0.0	$0.0	$0.0	$7.5	$16.6	$18.8	$9.9	$17.6	$17.8	$6.1	$0.7	$0.5	$0.5	$0.5	$0.5
Shareholders' Equity	$386.3	$402.8	$405.1	$422.0	$437.6	$456.2	$508.6	$589.0	$640.5	$776.8	$1,011.3	$3,371.6	$3,406.2	$4,312.3	$4,608.9	$4,888.2
Total Liabilities & Equity	**$1,159.0**	**$1,164.4**	**$1,173.1**	**$1,291.4**	**$1,283.8**	**$1,798.4**	**$1,784.0**	**$1,800.7**	**$3,013.1**	**$2,884.4**	**$2,914.9**	**$10,566.0**	**$10,687.1**	**$10,733.4**	**$10,975.7**	**$11,295.0**

Balance Sheet Analysis	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Total Debt	$534.8	$485.6	$453.2	$502.0	$465.6	$902.8	$795.7	$722.3	$1,704.1	$1,367.7	$1,128.9	$3,445.8	$3,412.5	$2,844.8	$2,844.8	$2,844.8
Net Debt	$529.4	$480.4	$446.7	$487.8	$436.9	$876.0	$788.8	$711.4	$1,651.3	$1,355.9	$1,113.0	$3,363.0	$3,334.7	$2,799.1	$2,742.3	$2,391.6
Debt to Cap	58.1%	54.7%	52.8%	54.3%	51.5%	66.4%	61.0%	55.1%	72.7%	63.8%	52.7%	50.5%	50.0%	39.7%	38.2%	36.8%
Net Debt to Cap	57.8%	54.4%	52.4%	53.6%	50.0%	65.8%	60.8%	54.7%	72.1%	63.6%	52.4%	49.9%	49.5%	39.4%	37.3%	32.9%
Interest Coverage	3.1x	3.3x	3.8x	3.0x	3.0x	2.0x	1.9x	3.8x	3.0x	3.9x	4.7x	5.8x	5.1x	8.4x	9.9x	10.7x
Debt / EBITDA LTM	2.9x	2.5x	2.7x	3.3x	3.2x	5.7x	3.8x	2.5x	4.4x	2.6x	2.3x	4.4x	3.0x	2.0x	1.9x	1.8x
Net Debt / EBITDA	2.8x	2.5x	2.6x	3.2x	3.0x	5.5x	3.7x	2.4x	4.3x	2.6x	2.2x	4.3x	2.9x	1.9x	1.8x	1.5x
Book Value / Share	$5.60	$6.03	$5.89	$6.07	$6.17	$6.32	$6.87	$7.51	$8.34	$10.06	$13.00	$33.56	$23.63	$29.52	$31.56	$34.42
Days outstanding receivables	38.4	39.4	37.9	41.0	40.4	41.4	38.9	35.8	40.8	43.5	40.0	74.0	42.1	42.8	40.0	40.0
Receivables YOY%		1.0%	(4.2%)	7.9%	8.8%	12.5%	15.7%	(0.1%)	39.4%	5.8%	(2.0%)	232.7%	(3.1%)	5.5%	(2.9%)	4.9%
Days outstanding inventory	30.3	31.9	32.2	36.5	34.9	49.8	44.0	43.2	47.4	45.5	42.0	70.4	40.4	43.9	43.4	43.1
Inventory turnover	11.9x	11.3x	11.2x	9.9x	10.3x	7.2x	8.2x	8.3x	7.6x	7.9x	8.6x	5.1x	8.9x	8.2x	8.3x	8.4x
Inventory YOY %		2.4%	0.5%	15.5%	7.6%	58.6%	8.4%		26.1%	(2.8%)	(2.0%)	215.3%	1.4%	8.8%	3.0%	4.6%
Days outstanding payables	19.2	19.9	18.0	21.1	21.5	24.2	23.9	25.1	30.6	29.9	30.3	52.1	27.7	30.3	29.5	29.5
Sales YOY%		(1.5%)	(0.4%)	(0.2%)	10.3%	9.6%	23.3%	0.0%	30.4%	(1.4%)	(1.7%)	79.9%	70.5%	3.7%	3.9%	4.9%
Other current assets % sales	0.6%	0.4%	4.3%	4.9%	1.5%	2.0%	1.4%	1.2%	1.8%	1.1%	3.0%	3.5%	1.9%	3.1%	2.9%	2.9%
ROIC	6.0%	8.4%	8.3%	5.5%	5.4%	4.4%	5.3%	9.1%	6.9%	11.4%	10.5%	5.0%	5.9%	8.5%	7.8%	8.3%
ROE	9.1%	12.2%	12.5%	7.4%	6.8%	5.8%	6.2%	14.8%	16.6%	23.1%	17.2%	8.3%	9.5%	12.4%	11.3%	11.9%
ROA	4.8%	6.4%	6.1%	3.9%	3.8%	3.3%	3.9%	6.6%	5.4%	8.5%	7.7%	3.2%	3.8%	5.7%	5.3%	5.7%

Source: Company filings and Jefferies

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Chart 29: Rock-Tenn Company Cash Flow Statement

Rock-Tenn Company Cash Flow Philip Ng, CFA 212-336-7369 ($ in millions, except per share data)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Net income	$35.2	$49.1	$50.6	$31.3	$29.8	$26.3	$31.4	$87.1	$106.0	$179.6	$174.4	$279.1	$322.9	$533.4	$521.7	$583.7
D&A	$77.1	$77.6	$68.1	$72.7	$74.2	$84.0	$104.3	$103.7	$133.4	$150.0	$147.4	$278.3	$534.3	$552.2	$588.0	$605.0
Deferred taxes	$0.3	$6.6	$5.6	$11.7	($4.7)	$4.0	$5.5	$22.2	$22.8	$46.0	($51.1)	$60.0	$123.4	($44.3)	$300.1	$172.1
Share-based comp exp	$0.0	$0.2	$0.9	$0.0	$1.5	$1.7	$3.6	$7.3	$9.2	$11.9	$16.0	$21.4	$29.2	$46.5	$39.0	$45.0
Pension expense	($1.0)	$2.6	$5.3	$11.1	$17.8	$15.4	$16.4	$13.3	$8.8	$19.4	$33.0	$44.6	$46.0	$30.0	$9.0	$13.0
Pension contribution	($0.6)	($1.3)	($12.5)	($22.7)	($19.6)	($7.4)	($20.7)	($20.9)	($15.9)	($40.9)	($20.7)	($67.1)	($351.4)	($197.1)	($225.0)	($175.0)
Changes in Working Capital	**($13.2)**	**$20.7**	**($7.1)**	**$1.5**	**($9.4)**	**$30.2**	**($6.6)**	**$43.0**	**($13.3)**	**$24.2**	**$45.1**	**($93.4)**	**($15.9)**	**($90.3)**	**$24.4**	**($68.8)**
Other / Restructuring	$4.6	($9.4)	$4.2	$9.3	$1.9	($0.9)	$19.6	($17.4)	($10.1)	$1.1	$35.0	($61.2)	($31.8)	$202.1	($15.0)	($10.0)
Cash Flow from Operating Activities	**$102.4**	**$146.0**	**$115.1**	**$114.8**	**$91.4**	**$153.3**	**$153.5**	**$238.3**	**$240.9**	**$391.3**	**$379.1**	**$461.7**	**$656.7**	**$1,032.5**	**$1,242.2**	**$1,165.1**
Capex	($94.6)	($72.6)	($72.7)	($57.4)	($60.8)	($54.3)	($64.6)	($78.0)	($84.2)	($84.0)	($106.2)	($199.4)	($452.4)	($440.4)	($565.0)	($500.0)
Business acquisitions	$0.0	$0.0	($25.4)	($81.8)	($15.0)	($552.3)	($7.8)	($32.1)	($817.9)	$4.0	($23.9)	($1,300.1)	($125.6)	($6.3)	($400.7)	$0.0
Proceeds from sale of assets	$2.2	$1.0	$11.4	$8.3	$6.1	$6.0	$4.7	$2.8	$6.4	$1.4	$3.6	$8.6	$40.5	$42.2	$24.7	$0.0
Divestitures	$0.0	$0.0	$0.0	$0.0	$61.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Other	($9.0)	($8.4)	($6.5)	($25.8)	($0.2)	$28.1	$0.7	($1.8)	$0.5	$3.2	$0.5	($0.5)	($6.7)	$0.9	$0.0	$0.0
Cash Flow from Investing Activities	**($101.3)**	**($79.9)**	**($93.2)**	**($156.7)**	**($8.1)**	**($572.5)**	**($67.0)**	**($109.1)**	**($895.2)**	**($75.4)**	**($126.0)**	**($1,491.4)**	**($544.2)**	**($403.6)**	**($941.0)**	**($500.0)**
Debt Issuance	**$37.6**	**$370.5**	**$19.0**	**$158.1**	**$0.1**	**$548.2**	**$139.9**	**$90.2**	**$1,169.3**	**$450.4**	**$344.0**	**$3,680.0**	**$2,516.9**	**$376.0**	**$0.0**	**$0.0**
Repayments of debt	**($1.6)**	**($419.7)**	**($50.8)**	**($106.2)**	**($37.7)**	**($110.5)**	**($240.4)**	**($182.4)**	**($430.9)**	**($803.7)**	**($564.0)**	**($2,530.8)**	**($2,563.4)**	**($933.6)**	**$0.0**	**$0.0**
Dividends	($10.4)	($10.0)	($10.2)	($11.1)	($12.0)	($12.9)	($13.2)	($15.4)	($15.2)	($15.3)	($23.4)	($37.6)	($56.5)	($75.3)	($102.2)	($104.4)
Common stock issuance	$3.7	$2.4	$7.7	$6.3	$6.7	$5.1	$11.5	$31.5	$5.2	$8.3	($0.6)	$25.2	$5.2	$3.5	($12.9)	$0.0
Common stock repurchased	($22.2)	($2.3)	($0.3)	($1.3)	$0.0	$0.0	$0.0	($58.7)	$0.0	$0.0	($3.6)	$0.0	$0.0	$0.0	($110.0)	($200.0)
Other	($7.3)	($7.5)	$13.2	$4.6	$1.7	($13.4)	($3.6)	$9.9	($31.9)	$3.6	$0.3	($85.2)	($20.8)	$0.2	($10.0)	($10.0)
Cash Flow from Financing Activities	**($0.1)**	**($66.6)**	**($21.4)**	**$50.4**	**($41.1)**	**$416.5**	**($105.8)**	**($124.9)**	**$696.5**	**($356.7)**	**($247.3)**	**$1,051.6**	**($118.6)**	**($629.2)**	**($235.1)**	**($314.4)**
FX on cash	($0.0)	$0.2	$0.9	($0.8)	$0.5	$0.8	($0.6)	($0.3)	($0.3)	$1.4	$0.1	$3.9	$1.6	($0.5)	$0.0	$0.0
Net increase (decrease of cash)	**$0.9**	**($0.3)**	**$1.4**	**$7.6**	**$42.7**	**($1.9)**	**($19.9)**	**$4.0**	**$41.9**	**($39.4)**	**$5.9**	**$25.8**	**($4.5)**	**($0.8)**	**$66.1**	**$350.7**
Cash beginning of year	$4.5	$5.4	$5.2	$6.6	$14.2	$56.9	$55.0	$35.1	$39.1	$81.0	$41.6	$15.9	$41.7	$37.2	$36.4	$102.5
Cash end of year	$5.4	$5.2	$6.6	$14.2	$56.9	$55.0	$35.1	$39.1	$81.0	$41.6	$47.5	$41.7	$37.2	$36.4	$102.5	$453.2
Free Cash Flow Analysis	**2003**	**2003**	**2003**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014E**	**2015E**
Operating Cash Flow	$102.4	$146.0	$115.1	$114.8	$91.4	$153.3	$153.5	$238.3	$240.9	$391.3	$379.1	$461.7	$656.7	$1,032.5	$1,242.2	$1,165.1
Capex	($94.6)	($72.6)	($72.7)	($57.4)	($60.8)	($54.3)	($64.6)	($78.0)	($84.2)	($84.0)	($106.2)	($199.4)	($452.4)	($440.4)	($565.0)	($500.0)
FCF	**$7.8**	**$73.5**	**$42.4**	**$57.4**	**$30.6**	**$99.0**	**$88.9**	**$160.3**	**$156.7**	**$307.3**	**$272.9**	**$262.3**	**$204.3**	**$592.1**	**$677.2**	**$665.1**
FCF (ex dividends)	**($2.6)**	**$63.5**	**$32.2**	**$46.3**	**$18.6**	**$86.1**	**$75.7**	**$144.9**	**$141.5**	**$292.0**	**$249.5**	**$224.7**	**$147.8**	**$516.8**	**$575.0**	**$560.7**
FCF / share	$0.11	$1.10	$0.62	$0.83	$0.43	$1.37	$1.20	$2.03	$2.05	$3.97	$3.49	$2.61	$1.42	$4.05	$4.64	$4.68
Key Cash Flow Ratios & Assumptions	**2003**	**2003**	**2003**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014E**	**2015E**
D&A % Sales	5.3%	5.4%	4.7%	5.1%	4.7%	4.8%	4.9%	4.5%	4.7%	5.3%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Capex % Sales	(6.5%)	(5.0%)	(5.1%)	(4.0%)	(3.8%)	(3.1%)	(3.0%)	(3.4%)	(3.0%)	(3.0%)	(3.0%)	(3.7%)	(4.9%)	(4.6%)	(5.7%)	(4.8%)
CapEx / D&A Ratio	122.8%	93.5%	106.8%	79.0%	81.9%	64.6%	61.9%	75.2%	63.1%	56.0%	72.0%	71.6%	84.7%	79.8%	96.1%	82.6%
Dividend / Share	($0.15)	($0.15)	($0.15)	($0.16)	($0.17)	($0.18)	($0.18)	($0.20)	($0.20)	($0.20)	($0.30)	($0.80)	($0.39)	($0.52)	($0.70)	($0.74)

Source: Company filings and Jefferies

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Company Description

Packaging Corporation of America is the fifth largest producer of containerboard and corrugated products in the United States. The company is vertically integrated and consumes roughly 80% of the containerboard it produces internally for its corrugated business, and sells the rest to domestic customers and into the export markets. PKG has 2.46 mil tons of containerboard capacity, with two kraft linerboard mills in Counce, Tennessee, and Valdosta, Georgia, and two semi-chemical corrugating mills in Tomahawk, Wisconsin, and Filer City, Michigan.

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Rock-Tenn Company manufactures packaging products, recycled paperboard, containerboard, bleached paperboard, and merchandising displays. The company's Consumer Packaging segment offers coated recycled and bleached paperboard for folding carton and other paperboard product manufacturers and market pulp. Its Corrugated Packaging segment manufactures linerboard and corrugated medium, corrugated sheets and packaging, and preprinted linerboard for industrial and consumer product. Rock-Tenn''s Merchandising Displays segment produces temporary and permanent promotional point-of-purchase displays for consumer products companies; offers contract packing services; and produces lithographic laminated packaging. Its Specialty Paperboard Products segment sells specialty recycled paperboard to solid fiber interior packaging, tube and core, and other paperboard product manufacturers; produces gypsum paperboard liner; and converts specialty paperboard.

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- DCP Midstream Partners, L.P. (DPM: $53.88, BUY)
- El Paso Pipeline Partners, L.P. (EPB: $41.26, HOLD)
- Enterprise Products Partners, L.P. (EPD: $39.34, HOLD)
- Kinder Morgan Energy Partners, L.P. (KMP: $95.57, HOLD)
- MarkWest Energy Partners, L.P. (MWE: $74.97, HOLD)
- ONEOK Partners, L.P. (OKS: $56.11, BUY)
- Plains All American Pipeline, L.P. (PAA: $58.10, HOLD)
- Spectra Energy Partners, L.P. (SEP: $51.11, HOLD)
- Targa Resources Partners, L.P. (NGLS: $69.53, HOLD)
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			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
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