

Manisha Chaudhry: 703-328-4199**Won Hye Lee: 203-848-5836****April 28, 2008****Current Price: \$11.66****Target Price: \$7.62****Rating: SELL**

12 Month Investment Outlook: We believe Louisiana Pacific is currently overvalued by 53% relative to our target share price of \$7.62.

LPX's core revenue driver of residential construction demand and its concentrated operation in North America makes it highly vulnerable to U.S. housing conditions. The decline in new residential construction in the U.S., fewer home repairs and decreasing sensitivity of housing sales to declining interest rates will continue to depress Louisiana Pacific's performance over the 12 month period.

Key Drivers:

- 1) LPX's business is solely focused on wood products for residential construction purposes and therefore is highly correlated with new housing starts and remodeling activities. Under the severe housing decline in 2007, LPX recorded negative earnings. Our estimate of future housing market based on population growth leads us to believe the housing slump will not recover until the end of 2009, implying zero growth in the company's revenues during the next 20 months.
- 2) The current level of housing vacancies in the U.S. is at a historical high. Based on our assumption that new housing demand will not occur until current housing vacancies are filled, we expect that the housing turnaround will not happen in the next 12 months period.
- 3) LPX's Cost of Goods Sold (COGS) level reached a historical high of 97.8% in 2007. Considering this increase in the COGS level was mainly due to the company's ongoing efforts to convert its OSB mills into more value-added product mills, we are doubtful of the company's ability to manage its costs effectively going forward.

Risks to our call:

- 1) As we are basing our revenue growth assumptions on the recovery of housing starts and the residential construction industry after a 20 months period, a sudden recovery of the housing market during the next 20 months period may boost LPX's equity value.
- 2) Decreases in the company's raw materials (primarily lumber and OSB) and energy costs that are significant enough to offset the increases in conversion costs would enable the company to reduce its COGS level.

Company Overview

Founded in 1972 after having been spun off from Georgia Pacific, Louisiana-Pacific Corporation is a forest products company headquartered in Nashville, Tennessee, that manufactures and distributes of building products for new residential construction, repair and remodeling, and manufactured housing. In recent years, the company implemented a restructuring plan to focus on its core structural products business by selling several businesses including plywood, industrial panel, lumber, timber, distribution, and wholesale operations.¹

After the restructuring plan, the company's business has become more focused with only three business segments of Oriented Strand Board (OSB), Siding, and Engineered Wood Products (EWP). The OSB segment operates in the manufacture and distribution of OSB structural panel products, such as unsanded plywood, including roof decking; sidewall sheathing; and floor underlayment. The Siding segment provides siding products and related accessories, such as OSB-based sidings, trim, soffit, and fascia. The Engineered Wood Products segment manufactures and distributes I-joists and laminated veneer lumber, and related products.

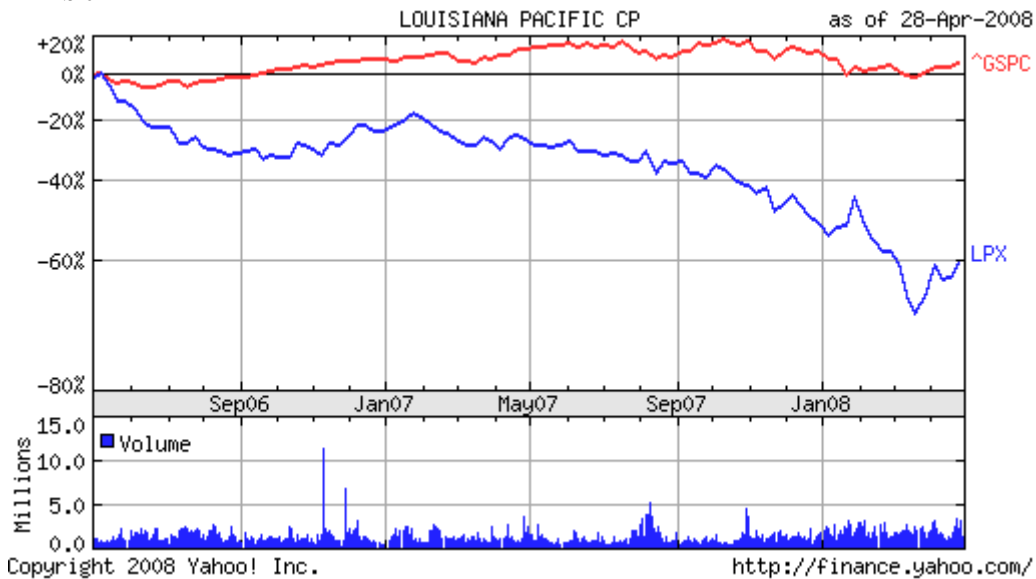
The company's customers include retail home centers such as Home Depot and Lowe's, manufactured housing producers, distributors, wholesalers, and building materials dealers primarily in North America, as well as in Asia, Europe, and South America.² The company currently has operations in the United States, Canada, and Chile, and has recently signed a Memorandum of Understanding (MOU) to purchase controlling stake in a Brazilian OSB mill.³

¹ Hoover's Company Records - In-depth Records; accessed through Lexis-Nexis Academic

² Capital IQ

³ Company Investor Presentation, February 2008

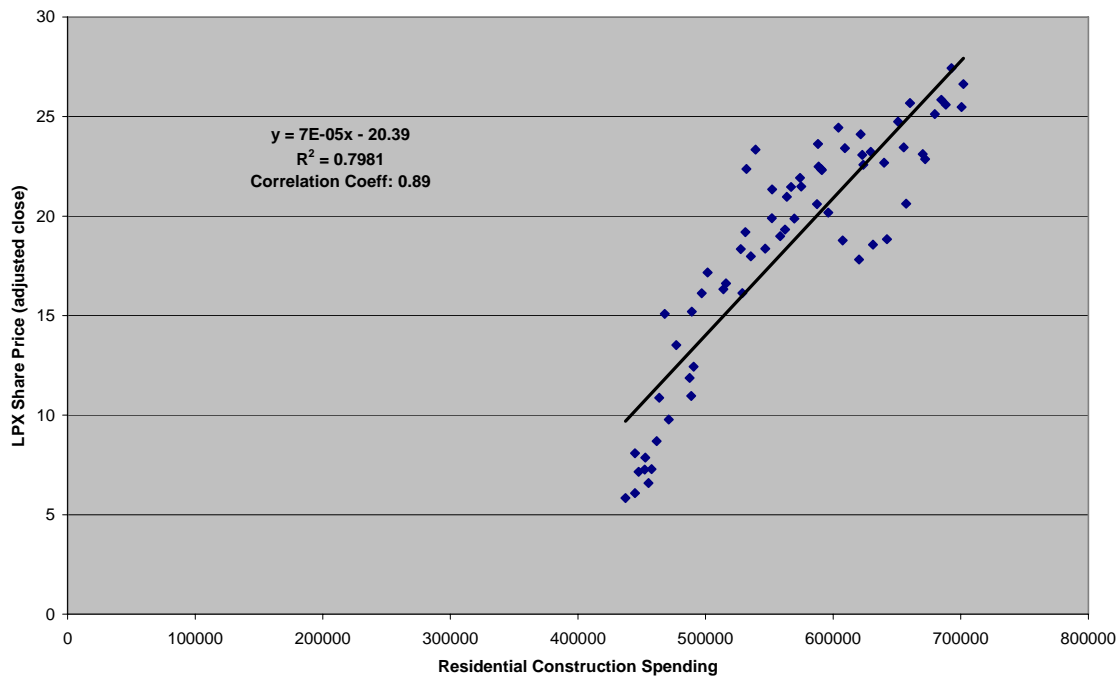
Exhibit 1



LPX performance highly correlated with Residential Construction

Exhibit 2

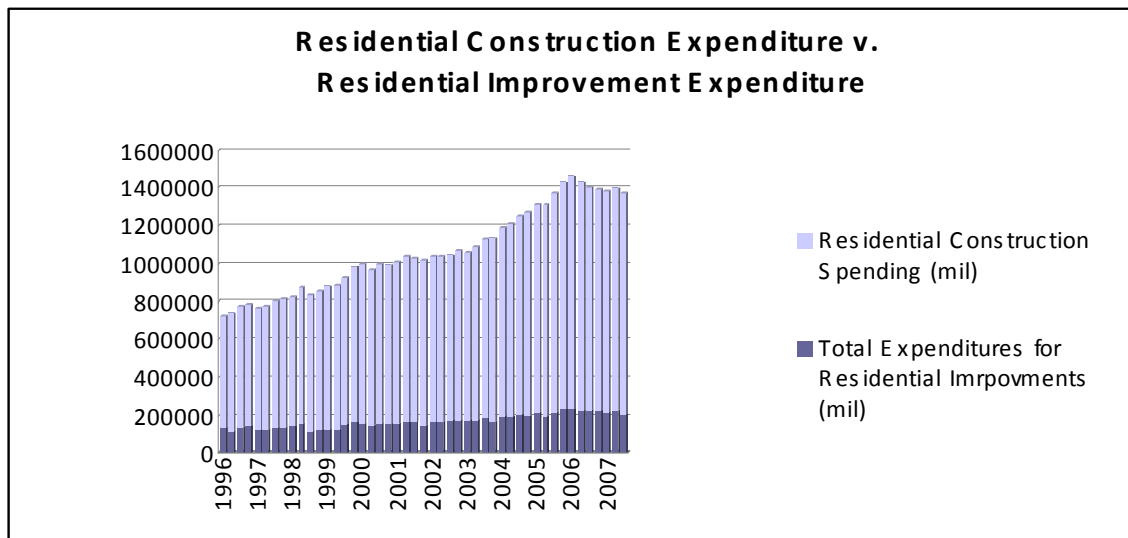
LPX Share Price against Residential Construction Spending (2002-2008)



A regression of LPX's daily adjusted closing share price against Residential Construction Spending in the past six years shows a strong positive relationship. LPX share price has

been highly correlated with Residential Construction Spending, with a correlation coefficient of 0.89 and a significant R-squared value of 0.80.

Exhibit 3



Data Source: Bloomberg

LPX's construction-related demand is driven both by new housing starts as well as remodeling and reconstruction activity. LPX does not provide a break down of revenues based on these segments, so we used U.S. quarterly residential construction expenditure and residential improvement expenditure as a proxy to estimate proportional changes in these segments. Residential Improvement expenditures have consistently represented 17% to 19% of residential construction spending over the past ten years. Since this proportion has been stable, we have used a single growth rate to project out revenue generation from both segments.

LPX's revenue growth and the Housing Slump

Exhibit 4

Interim Projections of the Population by Selected Age Groups for the United States and States: April 1, 2000 to July 1, 2030							
	Census April 1, 2000	Census July 1, 2005	Projections July 1, 2010	Projections July 1, 2015	Projections July 1, 2020	Projections July 1, 2025	Projections July 1, 2030
UNITED STATES							
Total	281,421,906	295,507,134	308,935,581	322,365,787	335,804,546	349,439,199	363,584,435
Under 5 years	19,175,798	20,495,480	21,426,163	22,358,358	22,932,056	23,518,395	24,271,894
25 to 44 years	85,040,251	83,203,691	82,767,349	84,845,591	87,881,460	89,696,253	91,610,717
25 to 44 years / 1.5 per avg household	56,693,501	55,469,127	55,178,233	56,563,727	58,587,640	59,797,502	61,073,811
5 Year Growth Rate		-2.2%	-0.5%	2.5%	3.6%	2.1%	2.1%
Source: U.S. Census Bureau							

Exhibit 5

Projected Housing Starts for Post Recession Period (Year 1 begins one year after end of recession)						
(actual units)	2007	Year 1	Year 2	Year 3	Year 4	Year 5
Estimated number of 24-33 year olds	35,996,660	36,318,470	36,643,157	36,970,747	37,301,265	37,634,739
Estimated Households demanded	17,998,330	18,159,235	18,321,579	18,485,373	18,650,633	18,817,369
Number of Housing Units (Total)	127,958,000	128,304,330	128,763,788	129,322,207	129,967,386	130,688,821
Number Occupied	110,306,000	110,604,553	111,000,628	111,482,012	112,038,188	112,660,100
Occupancy Rate	86%	86%	86%	86%	86%	86%
Number Houses Available (Vacant)	17,652,000	17,699,777	17,763,160	17,840,194	17,929,198	18,028,721
New Housing Demand = Demanded - Available	346,330	459,458	558,419	645,179	721,435	788,648
Replacement Rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Number Houses Replaced	614,198	615,861	618,066	620,747	623,843	627,306
Housing Starts = Replaced + New Demand	960,528	1,075,319	1,176,485	1,265,926	1,345,278	1,415,955
Housing Starts Growth Rate		12%	9%	8%	6%	5%

Data Source: <http://www.census.gov/hhes/www/housing> and <http://fas.org/sgp/crs/row/RL34337.pdf>

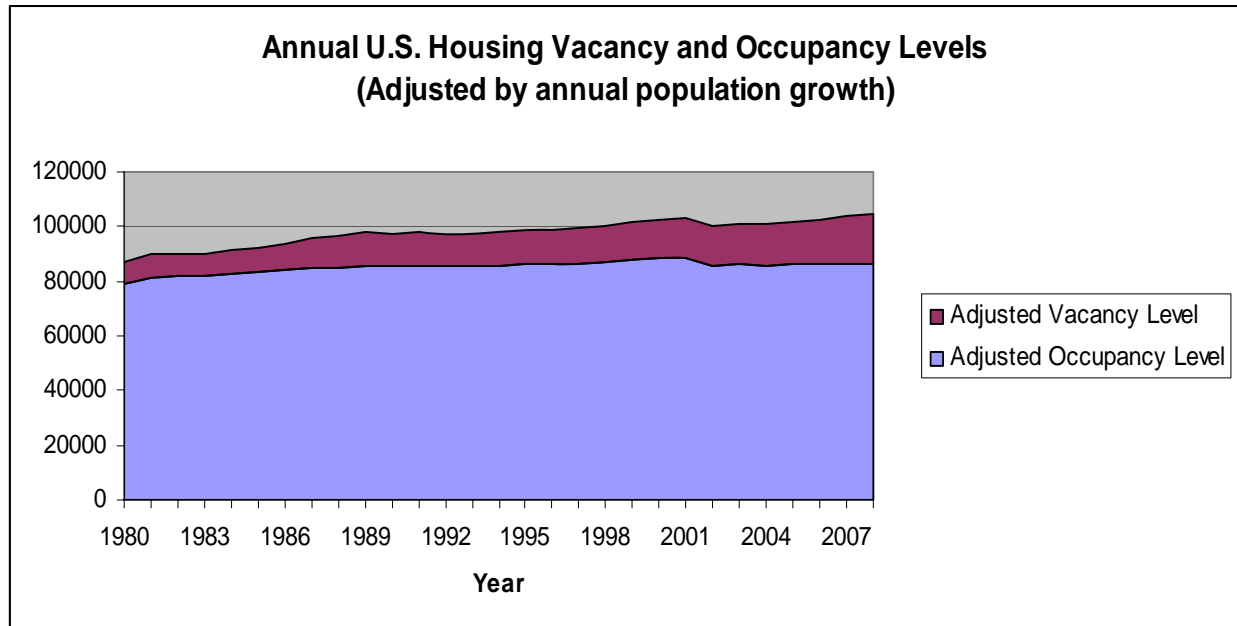
Going forward, we expect that LPX's growth will go through two phases marked by the turnaround of the housing market. We therefore estimate when we expect a housing market turnaround and then project out revenue growth based on a model we created to estimate housing demand.

We estimated housing demand by the growth in the U.S. population segment of 25 to 44 year olds, and assumed that two people from this segment would occupy each home. The average number of people per household is 2.8, assuming that one of these would be a child, we made a conservative downward estimate to approximate for the number of 25 to 44 year olds per home at 2.0. Based on U.S. Census Bureau estimates, this segment has decreased by 2.2% between 2000 and 2005. Projections for this segment show a decrease of 0.5% by 2010. While we believe that a projected decrease in this estimated homebuyer segment over the next two years would depress housing demand, we made a more conservative assumption in our forecast for housing starts below, and grow this segment at the current population growth rate of 0.89%.⁴

⁴ <https://www.cia.gov/library/publications/the-world-factbook/print/us.html>

U.S. Vacancy level at a Historical High

Exhibit 6



Data Source: Bloomberg

As of March 31, 2008 there were a reported 18.41million housing vacancies in the U.S. This vacancy level represents a historical high, based on the past 28 years. The average vacancy level over the past 28 years is 12.445 million. These levels are adjusted by annual U.S. population growth by subtracting annual population growth from the annual nominal housing level growth.

Assuming that new housing demand will not occur until these vacant units are filled up We took a conservative estimate for demand for existing homes, based on available data on historical existing housing demand. Even if we assume that housing demand will occur at the historical average 5.95 million homes a year, it will take over 3 years ($18.41/5.95=3.09$) to fill up the vacancies. Assuming that there is a minimal vacancy level after which new housing demand kicks in, a conservative estimate of this minimum at the historical average vacancy level of 12.45 million in the past eight years, suggest that it would take a little over a year to get to this level.

Exhibit 7

Reported at End of Year (December 31)	U.S. Yearly Total Existing Housing Demand Adjusted by Annual Population Growth (millions)
1999	5.08
2000	5.09
2001	5.44

2002	5.92
2003	6.44
2004	6.83
2005	6.78
2006	6.24
2007	4.85

Data Source: Bloomberg

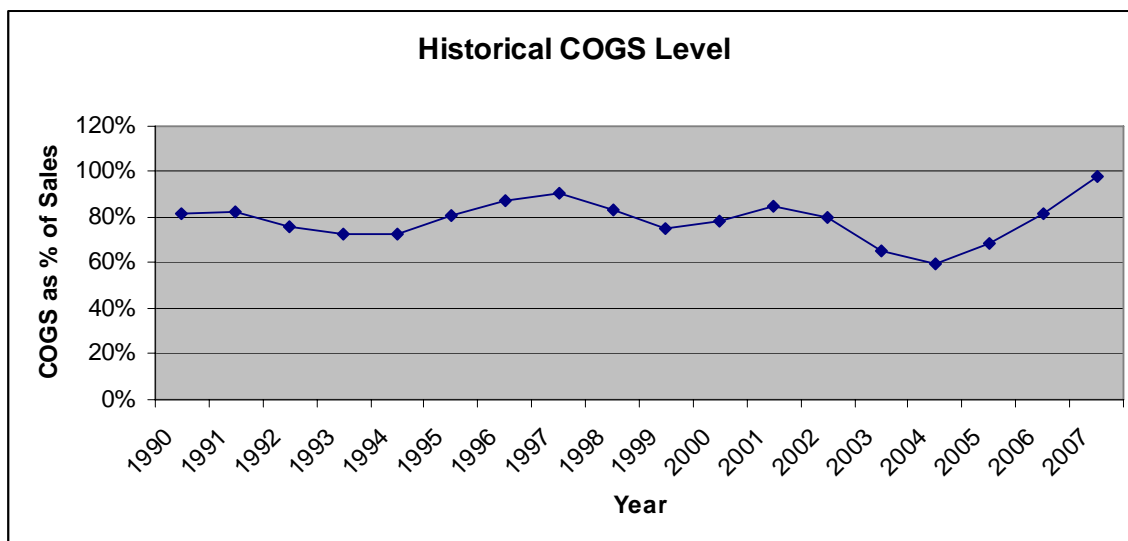
A sensitivity analysis on the timing of a housing turn around, whether it will take 1 year or 3 years, and assuming a conservative rate of 0% growth in recession years, suggests a range of values that are consistent with our sell rating. Although timing may simply be an allocation issue, as new construction that gets postponed to later years, will simply accumulate for the following year and should not have a significant impact in the long run, we tested our assumptions as further evidence to our rating. A sensitivity analysis on the year(s) till the housing market turnaround and the terminal growth rate suggests that even with aggressive terminal growth and a quick turnaround, LPX is overvalued at the current market price of \$11.66 in all but two scenarios.

Exhibit 8

Time Till Housing Turnaround	Terminal Growth Rate		
	3%	4%	5%
1 year	9.45	11.46	14.37
2 year	7.62	9.37	11.91
3 year	5.58	7.02	9.09

Cost of Goods Sold (COGS) estimated at historical level of 80%

Exhibit 9



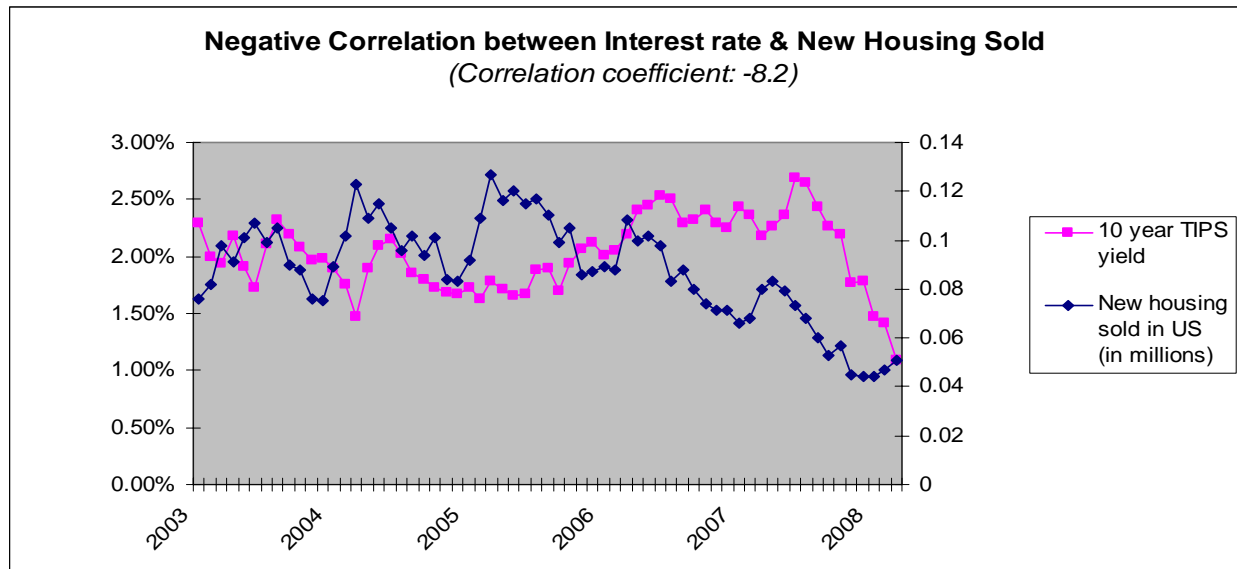
Data Source: Company 10-K

As shown in Exhibit 9, LPX's COGS level as a percentage of sales has been significantly increasing during the last 3 years. According to the company's 2007 10-K, such a dramatic increase in COGS level is not due to an increase in its raw material costs but mostly due to the increase in the costs of converting its commodity OSB mills into more value-added OSB product mills for such products as exterior sidings based on OSB. In fact, in 2006 and 2007 the company says that it has experienced a decrease in its raw material costs particularly in OSB and lumber prices, although such benefits were offset by the low volumes and increase in conversion costs.⁵

The company states that it plans to continue conversions of its mills in order to "increase its product offerings and production capacity of high margin, value-added products".⁶ Given this statement, it would be reasonable to assume that LPX would continue to have a high level of COGS due mainly to the conversion costs. Yet it would be unreasonable to think that COGS would stay at the current level of 97.8%, because, as shown in the historical graph above, the company has been doing a pretty good job of bringing down the COGS level to around 80% during the 12 years between the 1990-2002 period. Therefore we considered it a conservative assumption to hold the COGS level at the historical level of 80% for the purpose of our valuation.

A weakened relationship between falling interest rates to boost housing demand

Exhibit 10



Data Source: Federal Reserve & U.S Census Bureau

Exhibit 10 shows the historically negative relationship between 10 year TIPS yield and the number of new housing sales in the U.S. While it is conventional wisdom that low

⁵ Company 10-K, 2007

⁶ Company 10-K, 2007

interest rates would lead to an increase in housing demand, such a relationship does not seem to have held in the year 2007 due to the Subprime crisis. Despite the fall in interest rates in the past year, housing sales have continued to fall. It is unclear whether a continued fall in interest rates would encourage housing sales in the next 12 months period. Therefore we do not think that a further fall in interest rates would be a significant risk to our SELL rating. Moreover, an additional decrease in interest rates would further weaken the value of U.S dollar, which for LPX means that its costs in Canadian dollars will increase when converted to U.S dollar, which would negatively affect its COGS level and further strengthen our SELL recommendation.

Remains of the defective sidings: an obstacle to brand building

Between 1990 and 1996, LPX underwent a series of consumer complaints and class action suits regarding its defective OSB exterior siding product that deteriorated in humid climate. The company paid more than \$300 million to settle these issues to around 800,000 homeowners who had used the siding products until 1996.⁷ In 2003, the company announced implementation of a Claimant Offer Program in order to provide prompt payment to homeowners who filed claims under its Inner-Seal siding product liability class action settlement.⁸

When we tried a simple web search with the keywords “Louisiana Pacific siding”, we found that on the first page only, 7 out of 9 search results included contents about LPX’s defective siding issues that were installed in the 1990s and still affecting some homeowners today. The main purpose of these websites was to warn consumers to avoid homes with the defective LP siding installed.

According to a 2006 customer survey on home improvement projects conducted by Vertis, Inc., an advertising service company, there is an increasing trend among consumers who plan to remodel their homes to choose “doing it yourself” over hiring professional contractors.⁹ With such growing tendency of consumers’ undertaking their own home remodeling projects, we expect that the importance of branding for manufacturers of building products like LPX would increase significantly, as consumers would be more prone to rely on recognized brands than would professional contractors. Tokarczyk and Hansen in their column mentions brand development as a sustainable competitive advantage unlike other imitable ones such as marketing, supply, production, or distribution.¹⁰

With such an increased importance on branding as a competitive advantage in the industry, we think that LPX’s siding issues from the ‘90s will continue to pose an

⁷ Hoover's Company Records - In-depth Records; accessed through Lexis-Nexis Academic

⁸ Company Press Release, April 3, 2003

⁹ “Increase in 'Do-It-Yourself' Consumers Presents New Opportunities for Home Improvement Stores.”, 05/23/06, Business Wire

¹⁰ Tokarczyk, John and Hansen, Eric, “Creating Intangible Competitive Advantages in the Forest Products Industry”, pg 8, Forest Products Journal, Vol 56, No.7/8, July/August 2006

obstacle to its brand building efforts, thereby limiting its ability to developing a sustainable competitive advantage. While the impact of negative brand recognition is difficult to quantify and incorporate into our valuation, we believe it further strengthens our SELL recommendation.

Valuation

Method:

Based on LPX's historical balance sheets and income statements, we generated projected financial statements for the company using some key drivers such as revenue growth and COGS as a percentage of sales. Based on the EBITs we projected out, we forecast free cash flows (FCF) on a 5-year horizon. Using a weighted average cost of capital (WACC), we discounted the FCF and calculated the terminal value, so as to get the equity value.

Through such a valuation, we got the combined company's equity value of \$785 million. Dividing this by the number of shares outstanding of 103.1 million as of Dec 2007, we reached the target share price of \$7.62.

Beta and WACC:

We calculated the cost of equity for Louisiana Pacific using the Capital Asset Pricing Model (CAPM). For the risk-free rate, we referred to the current yield on the 10-year T-Bond of 3.5% reduced by 1% to adjust for the risk premium for long-term government bonds. We calculated the raw beta by running a regression on LPX's monthly total return data for 10 years against the S&P500 index. After smoothing this beta using the formula $33\% + 67\% * \text{raw beta}$, we computed the unlevered and relevered betas of 1.104 and 1.258 using a target debt ratio of 24.4%.

Exhibit 11
(in millions)

Year	LT Debt	Common Equity	Debt Ratio	Reason for significant change
1987	524.7	1044.2	33.4%	
1988	369.6	1137.1	24.5%	
1989	529.5	1176.5	31.0%	
1990	588.7	1166.7	33.5%	
1991	492.7	1203.6	29.0%	
1992	386.3	1361	22.1%	
1993	288.6	1571.4	15.5%	
1994	209.8	1849.4	10.2%	
1995	201.3	1656	10.8%	
1996	458.6	1427.6	24.3%	
1997	572.3	1286.2	30.8%	
1998	459.8	1222.8	27.3%	
1999	1014.8	1360	42.7%	Forex acquisition bridge loan
2000	1183.8	1295.2	47.8%	
2001	1152	1080.9	51.6%	Stock repurchase
2002	1070.1	1006	51.5%	Debt reduction plan announced
2003	1020.7	1310.9	43.8%	
2004	622.5	1767.8	26.0%	
2005	734.8	2042.9	26.5%	
2006	644.6	2067.4	23.8%	
2007	485.8	1819.5	21.1%	

Data Source: Capital IQ

Although LPX does not officially state a target debt ratio, the historical trend in its debt ratio in Exhibit 11 shows that the company's management has been making continuous efforts to bring down its debt level which was significantly increased in 1999 due mainly to financing for an acquisition. As is mentioned in the company's 2001 10K, the company had a \$190 million revolving credit facility with five financial covenants, one of which is to maintain a maximum debt to capitalization ratio of 52.5%. The 2002 10K also mentions that the maximum debt to capitalization ratio under such covenants will decrease further, indicating the company's future move toward debt reduction, which was officially announced in August 2002. Following the Debt Reduction Plan announcement in 2002, the company has been aggressively reducing its debt level to the current level of 21.1%. We thought it reasonable to assume that the years 1987-1998 are representative of the "steady-state" in terms of the company's debt ratio, and took the average debt ratio of those years (24.4%) as the target debt ratio.

Using the inputs explained above, we have computed the weighted average cost of capital (WACC) of 9.5% for LPX.

Key Assumptions:

- **Revenue growth:** Based on our assumptions about future housing starts, we have projected out revenue growth based on estimated Housing Starts Growth Rates based on the following schedule:

Exhibit 12

Projected Housing Starts for Post Recession Period (Year 1 begins one year after end of recession)						
(actual units)	2007	Year 1	Year 2	Year 3	Year 4	Year 5
Estimated number of 24-33 year olds	35,996,660	36,318,470	36,643,157	36,970,747	37,301,265	37,634,739
Estimated Households demanded	17,998,330	18,159,235	18,321,579	18,485,373	18,650,633	18,817,369
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Number Occupied	110,306,000	110,604,553	111,000,628	111,482,012	112,038,188	112,660,100
Occupancy Rate	86%	86%	86%	86%	86%	86%
Number Houses Available (Vacant)	17,652,000	17,699,777	17,763,160	17,840,194	17,929,198	18,028,721
New Housing Demand =Demanded -Available	346,330	459,458	558,419	645,179	721,435	788,648
Replacement Rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Number Houses Replaced	614,198	615,861	618,066	620,747	623,843	627,306
Housing Starts= Replaced + New Demand	960,528	1,075,319	1,176,485	1,265,926	1,345,278	1,415,955
Housing Starts Growth Rate		12%	9%	8%	6%	5%

In our model we assume that Year 1 growth will begin in 2010, which represents a conservative estimate for the housing market turnaround. For 2008 and 2009 we assume 0% growth.

- **Terminal Growth Rate:** Considering that LPX is in a mature industry, we assumed that the free cash flows would grow at the real GDP growth rate of 3%.
- **Cost of Goods Sold:** As mentioned earlier, we held the COGS level as percentage of sales at 80% on the assumption that the company would be able to bring down its costs to historical average level.
- **SG&A:** LPX's SG&A figures as percentage of sales have been fluctuating during the last 19 years, with its historical high at 9.2%. As we noted the company's historical tendency to bring the SG&A level down to 7.3-7.5% level, we used 7.5% on the assumption that after the crisis level in 2007 the company would be more equipped to adjust it back to historical level.
- **Depreciation & Amortization:** We assumed D&A as % of Net PPE at 5 year average of 2002-2006, excluding the 2007 which was exceptional.
- **Cash:** Cash as a percentage of sales was assumed to stay at 2007 level of 20.7%. In 2003 the company generated an exceptional cash increase mainly from the improvements in operational efficiency in OSB mills, and in 2005 the company raised debt to prepare for future liquidity needs.
- **Accounts Receivables & Inventory:** We projected Accounts Receivable as a percentage of sales at a historical 5 year average of 3.7%. Inventory was estimated using inventory turnover of 8.0 in line with historical numbers.
- **Prepaid Expenses:** Prepaid expenses were forecast as a percentage of COGS using a 3 year historical average.
- **Net PP&E:** Net PP&E was estimated using a 5 year historical average of fixed asset turnover.
- **Accounts Payable:** Accounts Payable was estimated as a percentage of COGS using a 5 year average.
- **Accrued Expenses:** Accrued expenses were estimated as a percentage of SG&A using a 3 year average.
- **Current Portion of LT debt:** We input the debt amount due in each year according to Bloomberg's debt schedule.

- **Income Taxes:** We have used the company's marginal tax rate of 35%.
- **Long-Term Debt:** As stated in our target debt ratio explanation above, we have used the target debt ratio of 24.4% for our WACC calculation.
- **Other Non-Current Liabilities:** Other non-current liabilities were estimated as a percentage of sales using a 5 year historical average number.

Exhibit 13. Historical Income Statement

<i>(in millions)</i>	2002	2003	2004	2005	2006	2007
Total Revenue	1,576.2	2,168.7	2,730.7	2,528.4	2,187.4	1,704.9
<i>% growth</i>		37.6%	25.9%	-7.4%	-13.5%	-22.1%
Cost Of Goods Sold	1,264.0	1,416.8	1,634.3	1,724.6	1,778.6	1,667.6
<i>% of sales</i>	80.2%	65.3%	59.8%	68.2%	81.3%	97.8%
Gross Profit	312.2	751.9	1,096.4	803.8	408.8	37.3
<i>Gross margin</i>	19.8%	34.7%	40.2%	31.8%	18.7%	2.2%
Selling General & Admin Exp.	134.1	159.0	159.7	146.3	160.2	151.5
<i>% of sales</i>	8.5%	7.3%	5.8%	5.8%	7.3%	8.9%
R & D Exp.	-	-	-	-	-	-
Operating income before depreciation (EBITDA)	178.1	592.9	936.7	657.5	248.6	-114.2
Depreciation & Amort.	136.0	130.7	141.1	128.3	121.3	107.9
<i>% of Net PPE</i>	16.0%	16.5%	18.8%	16.4%	14.3%	10.0%
Other Operating Expense/(Income)	30.4	18.7	(0.1)	4.7	1.5	(0.1)
<i>% of sales</i>	1.9%	0.9%	N/A	0.2%	0.1%	N/A
Other Operating Exp., Total	300.5	308.4	300.7	279.3	283.0	259.3
Operating Income (EBIT)	11.7	443.5	795.7	524.5	125.8	(222.0)
Interest Expense	(95.8)	(88.5)	(65.3)	(54.6)	(49.4)	(35.3)
<i>% of interest bearing debt</i>	8.6%	8.6%	8.2%	6.6%	7.6%	4.8%
Interest and Invest. Income	32.8	33.8	45.6	71.3	95.7	81.7
Net Interest Exp.	(63.0)	(54.7)	(19.7)	16.7	46.3	46.4
Income/(Loss) from Affiliates	2.8	1.9	3.8	0.7	(4.3)	(18.1)
Currency Exchange Gains (Loss)	(3.2)	1.0	9.7	(1.4)	(2.5)	(29.6)
Other Non-Operating Inc. (Exp.)	-	-	-	-	-	(0.1)
EBT Excl. Unusual Items	(51.7)	391.7	789.5	540.5	165.3	(223.4)
Impairment of Goodwill	-	-	-	-	-	-
Gain (Loss) On Sale Of Invest.	3.1	-	-	-	-	(20.9)
Gain (Loss) On Sale Of Assets	-	119.8	(21.5)	0.3	(1.3)	0.2
Asset Writedown	61.3	(1.6)	-	(1.9)	(1.3)	(57.0)
Insurance Settlements	1.9	29.3	-	-	4.7	-
Legal Settlements	(2.0)	(19.7)	(6.0)	-	(3.9)	10.9
Other Unusual Items	(2.1)	(7.6)	(64.3)	(3.3)	-	1.5
EBT Incl. Unusual Items	10.5	511.9	697.7	535.6	163.5	(288.7)
Income Tax Expense	15.2	231.2	277.5	60.7	29.6	(133.4)
Minority Int. in Earnings	0.9	-	-	-	-	-
Earnings from Cont. Ops.	(3.8)	280.7	420.2	474.9	133.9	(155.3)
Earnings of Discontinued Ops.	(54.4)	(8.3)	0.5	(18.3)	(10.2)	(24.6)
Extraord. Item & Account. Change	(3.8)	0.1	-	(1.1)	-	-
Net Income	(62.0)	272.5	420.7	455.5	123.7	(179.9)
<i>Net Margin</i>	N/A	13%	15%	18%	6%	N/A

Exhibit 14. Projected Income Statement

<i>(in millions)</i>	2008	2009	2010	2011	2012
Total Revenue	1,704.9	1,704.9	1,909.5	2,081.3	2,247.8
<i>% growth</i>	<i>0.0%</i>	<i>0.0%</i>	<i>12.0%</i>	<i>9.0%</i>	<i>8.0%</i>
Cost Of Goods Sold	1,363.9	1,363.9	1,527.6	1,665.1	1,798.3
<i>% of sales</i>	<i>80.0%</i>	<i>80.0%</i>	<i>80.0%</i>	<i>80.0%</i>	<i>80.0%</i>
Gross Profit	341.0	341.0	381.9	416.3	449.6
<i>Gross margin</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>
Selling General & Admin Exp.	127.9	127.9	143.2	156.1	168.6
<i>% of sales</i>	<i>7.5%</i>	<i>7.5%</i>	<i>7.5%</i>	<i>7.5%</i>	<i>7.5%</i>
R & D Exp.	-	-	-	-	-
Operating income before depreciation (EBITDA)	213.1	213.1	238.7	260.2	281.0
Depreciation & Amort.	101.6	101.6	113.8	124.0	133.9
<i>% of Net PPE</i>	<i>16.4%</i>	<i>16.4%</i>	<i>16.4%</i>	<i>16.4%</i>	<i>16.4%</i>
Other Operating Expense/(Income)	1.7	1.7	1.9	2.1	2.2
<i>% of sales</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>
Other Operating Exp., Total	103.3	103.3	115.7	126.1	136.2
Operating Income (EBIT)	109.8	109.8	123.0	134.1	144.8
Interest Expense	(34.80)	(35.02)	(47.06)	(35.76)	(36.40)
<i>% of interest bearing debt</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.9%</i>
Interest and Invest. Income	81.7	81.7	81.7	81.7	81.7
Net Interest Exp.	46.9	46.7	34.6	45.9	45.3
Income/(Loss) from Affiliates	(18.1)	(18.1)	(18.1)	(18.1)	(18.1)
Currency Exchange Gains (Loss)	(29.6)	(29.6)	(29.6)	(29.6)	(29.6)
Other Non-Operating Inc. (Exp.)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBT Excl. Unusual Items	108.9	108.7	109.9	132.2	142.3
Impairment of Goodwill	-	-	-	-	-
Gain (Loss) On Sale Of Invest.	-	-	-	-	-
Gain (Loss) On Sale Of Assets	-	-	-	-	-
Asset Writedown	-	-	-	-	-
Insurance Settlements	-	-	-	-	-
Legal Settlements	-	-	-	-	-
Other Unusual Items	-	-	-	-	-
EBT Incl. Unusual Items	108.9	108.7	109.9	132.2	142.3
Income Tax Expense	38.13	38.05	38.45	46.28	49.81
Minority Int. in Earnings	-	-	-	-	-
Earnings from Cont. Ops.	70.8	70.7	71.4	85.9	92.5
Earnings of Discontinued Ops.	0	0	0	0	0
Extraord. Item & Account. Change	0	0	0	0	0
Net Income	70.8	70.7	71.4	85.9	92.5
<i>Net Margin</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>

Exhibit 15. Historical Balance Sheet

<i>(in millions)</i>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
ASSETS						
Cash And Equivalents	137.3	925.9	544.7	607.6	258.0	352.1
% of sales	8.7%	42.7%	19.9%	24.0%	11.8%	20.7%
Short Term Investments	0	0	608.2	717.3	797.0	180.1
Total Cash & ST Investments	137.3	925.9	1,152.9	1,324.9	1,055.0	532.2
Accounts Receivable	74.2	87.2	116.3	111.1	60.1	55.5
% of sales	4.7%	4.0%	4.3%	4.4%	2.7%	3.3%
Other Receivables	25.1	48.9	69.2	35.7	97.3	187.6
% of sales	1.6%	2.3%	2.5%	1.4%	4.4%	11.0%
Notes Receivable	0	0	0	70.8	0	74.4 ⁽¹¹⁾
Total Receivables	99.3	136.1	185.5	217.6	157.4	317.5
Inventory	163.5	177.5	203.5	240.3	221.6	212.1
Inventory Turnover	7.7	8.0	8.0	7.2	8.0	7.9
Prepaid Exp.	11.3	11.1	15.9	9.6	9.3	7.6
% of COGS	0.9%	0.8%	1.0%	0.6%	0.5%	0.5%
Deferred Tax Assets, Curr.	38.6	51.7	26.7	0	28.5	0.5
Other Current Assets	41.3	22.8	19.6	0	24.5	6.0
Total Current Assets	491.3	1,325.1	1,604.1	1,792.4	1,496.3	1,075.9
Net Property, Plant & Equipment	848.3	790.1	750.8	783.3	850.4	1,076.8
Fixed Asset Turnover	1.9	2.7	3.6	3.2	2.6	1.6
Long-term Investments	0	98.8	162.9	224.5	253.3	351.1
Goodwill	293.3	276.7	273.5	273.5	273.5	273.5
Other Intangibles	110.6	104.8	104.6	105.1	98.7	64.1
Loans Receivable Long-Term	403.8	403.8	403.8	333.0	333.0	258.6
Other Long-Term Assets	632.7	205.1	150.9	86.2	123.5	129.3
Total Assets	2,780.0	3,204.4	3,450.6	3,598.0	3,428.7	3,229.3
LIABILITIES						
Accounts Payable	120.1	118.9	139.5	129.7	128.9	137.5
% of COGS	9.5%	8.4%	8.5%	7.5%	7.2%	8.2%
Accrued Exp.	91.0	113.4	106.3	105.7	98.2	82.0
% of SG&A	67.9%	71.3%	66.6%	72.2%	61.3%	54.1%
Short-term Borrowings	0	0	0	0	3.0	45.2
Curr. Port. of LT Debt	35.3	8.3	178.0	88.6	0.4	201.1
Curr. Income Taxes Payable	0	19.0	4.2	7.8	3.1	2.6
% of EBIT		4.3%	0.5%	1.5%	2.5%	-1.2%
Def. Tax Liability, Curr.	0	0	0	2.3	14.6	4.4
Other Current Liabilities	20.0	43.0	12.0	12.0	9.0	15.8
% of sales	1.3%	2.0%	0.4%	0.5%	0.4%	0.9%
Total Current Liabilities	266.4	302.6	440.0	346.1	257.2	488.6
Long-Term Debt	1,077.0	1,020.7	622.5	734.8	644.6	485.8
Def. Tax Liability, Non-Curr.	216.1	407.7	517.5	377.0	363.9	340.0
Other Non-Current Liabilities	214.3	162.5	102.8	97.2	95.6	95.4
% of sales	13.6%	7.5%	3.8%	3.8%	4.4%	5.6%
Total Liabilities	1,773.8	1,893.5	1,682.8	1,555.1	1,361.3	1,409.8
Common Stock	116.9	116.9	116.9	116.9	116.9	116.9
Additional Paid In Capital	447.0	442.3	440.0	435.5	435.8	439.0
Retained Earnings	745.6	1,018.1	1,406.2	1,809.7	1,870.2	1,630.1
Treasury Stock	230.2	195.2	127.4	257.0	284.0	302.0
Comprehensive Inc. and Other	73.1	71.2	67.9	62.2	71.5	64.5
Total Common Equity	1,006.2	1,310.9	1,767.8	2,042.9	2,067.4	1,819.5
Total Equity	1,006.2	1,310.9	1,767.8	2,042.9	2,067.4	1,819.5
Total Liabilities And Equity	2,780.0	3,204.4	3,450.6	3,598.0	3,428.7	3,229.3

¹¹ The \$74.4 million in notes receivable in 2007 represents the current portion of \$333 million notes receivable from sales of timberlands in California in 1997 and 1998. The notes receivable were monetized through the issuance of notes payable. Proceeds from the notes receivable will be used to fund payments required for the notes payable. LPX monitors the collectability of the notes on a regular basis. (2007 10K)

Exhibit 16. Projected Balance Sheet

(in millions)

	2008	2009	2010	2011	2012
ASSETS					
Cash And Equivalents	352.1	352.1	394.4	429.8	464.2
% of sales	20.7%	20.7%	20.7%	20.7%	20.7%
Short Term Investments	250.9	321.6	393.0	478.9	571.4
Total Cash & ST Investments	603.0	673.7	787.3	908.8	1,035.6
Accounts Receivable	63.7	63.7	71.3	77.7	84.0
% of sales	3.7%	3.7%	3.7%	3.7%	3.7%
Other Receivables	41.7	41.7	46.8	51.0	55.0
% of sales	2.4%	2.4%	2.4%	2.4%	2.4%
Notes Receivable	0	0	0	0	0
Total Receivables	105.4	105.4	118.1	128.7	139.0
Inventory	170.5	170.5	190.9	208.1	224.8
Inventory Turnover	8.0	8.0	8.0	8.0	8.0
Prepaid Exp.	7.0	7.0	7.8	8.5	9.2
% of COGS	0.5%	0.5%	0.5%	0.5%	0.5%
Deferred Tax Assets, Curr.	0	0	0	0	0
Other Current Assets	0	0	0	0	0
Total Current Assets	885.9	956.6	1,104.2	1,254.1	1,408.6
Net Property, Plant & Equipment	619.3	619.3	693.6	756.0	816.5
Fixed Asset Turnover	2.8	2.8	2.8	2.8	2.8
Long-term Investments	833.4	777.9	806.4	458.2	315.1
Goodwill	273.5	273.5	273.5	273.5	273.5
Other Intangibles	64.1	64.1	64.1	64.1	64.1
Loans Receivable Long-Term	258.6	258.6	258.6	258.6	258.6
Other Long-Term Assets	129.3	129.3	129.3	129.3	129.3
Total Assets	3,064.0	3,079.2	3,329.6	3,193.8	3,265.8
LIABILITIES					
Accounts Payable	109.0	109.0	122.0	133.0	143.7
% of COGS	8.0%	8.0%	8.0%	8.0%	8.0%
Accrued Exp.	80.0	80.0	89.6	97.7	105.5
% of SG&A	62.6%	62.6%	62.6%	62.6%	62.6%
Short-term Borrowings	0	0	0	0	0
Curr. Port. of LT Debt	0	0	200	0	0
Curr. Income Taxes Payable	1.7	1.7	1.9	2.0	2.2
% of EBIT	1.5%	1.5%	1.5%	1.5%	1.5%
Def. Tax Liability, Curr.	0	0	0	0	0
Other Current Liabilities	9.6	9.6	10.8	11.7	12.7
% of sales	0.6%	0.6%	0.6%	0.6%	0.6%
Total Current Liabilities	200.2	200.2	424.2	244.4	264.0
Long-Term Debt	589.9	593.6	597.6	606.2	616.9
Def. Tax Liability, Non-Curr.	360.3	360.3	360.3	360.3	360.3
Other Non-Current Liabilities	85.5	85.5	95.7	104.4	112.7
% of sales	5.0%	5.0%	5.0%	5.0%	5.0%
Total Liabilities	1,235.9	1,239.6	1,477.8	1,315.2	1,353.9
Common Stock	116.9	116.9	116.9	116.9	116.9
Additional Paid In Capital	439.0	439.0	439.0	439.0	439.0
Retained Earnings	1,641.7	1,653.2	1,665.4	1,692.1	1,725.4
Treasury Stock	302.0	302.0	302.0	302.0	302.0
Comprehensive Inc. and Other	67.5	67.5	67.5	67.5	67.5
Total Common Equity	1,828.1	1,839.6	1,851.8	1,878.6	1,911.9
Total Equity	1,828.1	1,839.6	1,851.8	1,878.6	1,911.9
Total Liabilities And Equity	3,064.0	3,079.2	3,329.6	3,193.8	3,265.8

Exhibit 17. Beta & WACC Calculations

Beta Calculations

Raw beta	1.385	1)
Smoothed beta	1.258	2)
Credit Rating	BBB-	
Target debt ratio	24.4%	
Equity ratio	75.6%	
Debt Beta	0.37	3)
Unlevered beta	1.104	4)
Relevered beta	1.258	5)

Discount rate

Rf	0.025	6)
Relevered beta	1.258	
Risk premium	7%	
Re	0.113	7)

WACC

Re	0.113	
Rd	0.059	8)
Tax rate	35%	
Debt ratio	24.4%	
Equity ratio	75.6%	
WACC	9.5%	9)

- 1) 10 year regression on CRSP monthly total return data against a market index (Jan 88 - Dec 07)
- 2) $.33 + .67 \times \text{Raw Beta}$
- 3) Debt beta by bond class, "Valuation", Koller, Goedhart, and Wessels, pg. 321
- 4) $(\text{Levered equity beta} + (1-T) \times (D/E) \times \text{Debt beta}) / (1 + (1-T)(D/E))$
- 5) $\text{Equity beta} \times (1 + (1-t)(D/E)) - \text{Debt beta} \times (1-t) \times (D/E)$
- 6) Adjusted 10 year T-bond return - 1% (historical risk premium on long-term bonds), Source: Bloomberg.com
- 7) CAPM: $Re = Rf + B \times RP$
- 8) 2007 10k lists average int rate for fixed(6.3%) and variable(5.5%), and 5.9% is the average of the two.
- 9) $WACC = Re \times \text{Equity ratio} + Rd \times (1-t) \times \text{Debt ratio}$

Exhibit 18. Discounted Cash Flow Valuation

Perpetuity Growth Method

Weighted average cost of capital	9.5%
Net present value of free cash flow	(14)
Growth rate of FCF after 2012	3.0%
Terminal Value	1,467
Present Value of Terminal Value	933
Enterprise Value	919
Less: Debt, Minority Interest	486
Plus: Cash & Cash equivalents	352
Equity Value	785
Shares Outstanding	103.1 million
Target Share Price	\$ 7.62 (A)
Market Price as of 04/28/08	\$ 11.66 (B)
Market overvaluation relative to target price	53%

Discounted Cash Flow

<i>(in millions)</i>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
EBIT (LPX)	(222.0)	109.8	109.8	123.0	134.1	144.8
After-Tax EBIT (marginal tax rate: 35%)	(144.3)	71.4	71.4	80.0	87.2	94.1
Plus: Depreciation & Amortization	107.9	101.6	101.6	113.8	124.0	133.9
Less: Change in Working Capital	(113.9)	218.7	(0.0)	(9.9)	(8.3)	(8.1)
Less: Capital Expenditures	(335.5)	(100.0)	(136.0)	(136.0)	(136.0)	(136.0)
Less: Changes in Other LT assets	(5.8)	0.0	0.0	0.0	0.0	0.0
Less: Changes in Intangibles	34.6	0.0	0.0	0.0	0.0	0.0
Plus: Changes in Other LT Liabilities	(0.2)	(9.9)	0.0	10.3	8.6	8.3
Free Cash Flow	(457.2)	281.8	37.0	58.1	75.4	92.3
Present Value of Free Cash Flow	(457.2)	257.4	30.8	44.2	52.5	58.7

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