

CASE STUDY: SMURFIT-STONE CONTAINER (AD-HOC GROUP OF PREFERRED EQUITY HOLDERS)

Sanabe served as industry and valuation expert to the preferred shareholders of Smurfit-Stone Container Corporation (“Smurfit” or the “Company”) in their successful legal challenge to the Company’s Plan of Reorganization (POR) to exit bankruptcy protection.

Smurfit’s preferred and common shareholders challenged the POR on the basis that it undervalued the Company in providing no recovery to these stakeholders.

The preferred holders hired Sanabe along with restructuring and bankruptcy expert GLC Advisors (“GLCA”) to provide a valuation report regarding Smurfit and to advise on expert reports filed on behalf of the Company and its unsecured creditors.

In the course of our assignment, we reviewed the Company’s detailed financial projections along with extensive Company financial and operating data.

Sanabe and GLCA concluded that the POR substantially undervalued the Company.

- The POR valuation relied primarily on projected 2010 data. By contrast, Sanabe and GLCA developed a valuation that utilized “normalized” or “across-the-cycle” financial performance
 - We noted that Smurfit’s business suffered disproportionately relative to its peers in 2008 and 2009, due to financial distress and operational restructuring
- The five year financial forecast used in the POR valuation conflicted with historical Company and industry trends
 - Containerboard and corrugated box pricing spreads to the Pulp & Paper Week benchmark linerboard price remained very wide relative to historical trends
 - Projected fixed costs grew at the rate of inflation despite the Company’s historical success in keeping such costs essentially flat in nominal terms through workforce reductions and tightly controlled spending
 - The forecast attributed essentially no benefit to over \$1 billion in capital expenditures between 2010 and 2014, contending that all such investments would be “defensive” and provide no associated benefits

In May, Smurfit and the shareholders agreed to a settlement allocating the shareholders 4.5% of the reorganized Company’s common shares. The settlement announcement led to a significant appreciation in the value of the preferred shares.