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Weyerhaeuser pulls plug on box plant

Portland facility to close, renewing debate of effects of Willamette takeover

By JOHN GRUND Issue date: Fri, Jun 18, 2004
The Tribune

Workers at a Weyerhaeuser Co. cardboard box plant on North Marine Drive have been told the plant will close by the end of the summer, leaving as many as 30 people out of work.

The closure of the former Willamette Industries Inc. plant, which has produced millions of boxes for Reebok shoes over the past few years, brings the total number of plants Weyerhaeuser has closed since its January 2002 takeover of Willamette to more than 20 worldwide. Workers may be able to transfer to two other Weyerhaeuser corrugated box plants still operating in the Portland area — one in Beaverton and one in Gresham. The Reebok International Ltd. work apparently will go to Asia.

Weyerhaeuser managers maintain that the combination of the two forest-products giants has gone smoothly, noting that the company reached its goal of \$300 million in savings from the merger in 18 months instead of three years. Others, however, point out that Weyerhaeuser issued nearly \$1 billion in new shares in May and used the money to pay down part of the huge debt it took on to purchase the Portland-based Willamette.

"I think it was a tragic merger," said Portland investment manager Bill Parish. "It basically left Weyerhaeuser overleveraged and destroyed a great company headquartered in Portland, Oregon."

The loss of Willamette to Weyerhaeuser, which is based in Federal Way, Wash., left Portland without a single Fortune 500 headquarters. The only one in the state still large enough to make the list is Beaverton-based Nike Inc.

The Willamette buy cost Weyerhaeuser about \$8 billion — it paid \$6.2 billion for all shares of Willamette stock and took over \$1.7 billion in debt — after a long, hostile takeover bid. Even after the stock sale and debt repayment, Weyerhaeuser's ratio of debt to total capital remains significant at 52 percent.

"I think (the merger) has been a success to the degree we thought it would be," said Weyerhaeuser spokesman Bruce Amundson. The company promised to integrate the two firms in 90 days and did the job in 60, Amundson said. It created the promised synergies "in half the time we said we would."

Weyerhaeuser also has hit its goals for market leadership, he said. "We're No. 1 or No. 2 in all our major product lines." Moreover, it has

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injected Willamette's expertise in manufacturing into its existing plants, he noted. "Processes are much more streamlined and faster. Our figure for tons per day per employee on the paper side is up 25 percent."

United it stands

Amundson added proudly that the company no longer distinguishes between plants based on whether they used to belong to Weyerhaeuser or Willamette. He said the blending of the corporate cultures has gone well, helped by the immediate addition of two former Willamette managers, Nick Onustock and Marvin Cooper, as senior vice presidents on the manufacturing side.

Former Willamette workers, however, grouse that Weyerhaeuser is "much more bureaucratic."

Amundson said the stock sale should not be taken as a sign that the company's finances were in trouble. "The reason for the equity offering was simply to accelerate repayment of that debt, and allow us flexibility going forward to do some other things."

Weyerhaeuser stock has delivered a 10 percent return to investors, including dividends, since the day of the merger, a period of almost 18 months. It has not been a smooth ride, however, with the stock first taking a big tumble then posting a big increase this year. Shares closed at \$59 a share last Wednesday, up from \$55 a share a month ago.

Opponents of the takeover predicted that Weyerhaeuser would be forced to speed up harvest of Willamette's timberlands to pay off the acquisition cost. Oregon Department of Forestry figures show that has happened, industry experts say. That means increased tax revenue today but could mean lower tax revenue, and fewer mature trees, tomorrow.

Weyerhaeuser spokeswoman Jackie Lang denied the company has accelerated harvesting. Weyerhaeuser's "overall harvest level in Oregon and Washington has not changed," she said. Some parcels that had been idle may have shown a burst of activity simply because the trees on the land had reached the age for harvest.

Meanwhile, while some employees at the Marine Drive plant would go to other Weyerhaeuser operations, there will be a loss of 10 to 15 hourly positions at the end of the year. "We're folding ... a small facility back into the base packaging operations in the area," Lang said. The company has 5,000 employees in Oregon, down from 5,500 employees pre-merger. Other closed plants include those at Coos Bay, Junction City and Portland, and three former Willamette wood products facilities in Bend, Winston and Woodburn.

Deal's fallout affects many

Parish said the only real winners in the takeover were the investment houses that put together the deal. Credit Suisse and others involved in the deal earned some \$250 million in fees on the deal, mostly in the form of commissions on the new bonds Weyerhaeuser issued to make the purchase.

Paper buyers probably lost in the deal, Parish said, noting that many paper prices have risen since the takeover. "The market wanted to take out Willamette because they were too well-run. They were more efficient and had lower prices."

Even Institutional Shareholder Services, the research firm whose approval put the Weyerhaeuser proposal over the top, has seen negative fallout from the merger as stories in the media have questioned its

influence in the deal. Research Director Ram Kumar lost his job after making his Weyerhaeuser recommendation and a similar one on the Hewlett-Packard Development Co.-Compaq Computer Co. combination.

And, Weyerhaeuser has faced antitrust lawsuits since the merger. In May, a Portland jury hit Weyerhaeuser with a \$15.8 million penalty for monopolizing the alder log market in the Northwest, a situation that arose at least in part because of the Willamette takeover. Weyerhaeuser is appealing the verdict.

Goldschmidt had a hand in it

Parish wonders if the takeover could have occurred if it happened after former Gov. Neil Goldschmidt's illegal sexual relationship with a 14-year-old girl while he was mayor almost 30 years ago came to light. Goldschmidt played a key role in lining up public officials behind the takeover.

"Neil Goldschmidt just silenced 'em all," Parish said. "He did his job. He just sold off a valuable part of this state."

Weyerhaeuser's Amundson acknowledged that the company still has a contract for lobbying with Goldschmidt's firm, Goldschmidt Imeson Carter. He would not say whether it would be renewed.

Though still steamed at the hostile takeover, Willamette's former executives are moving on. Former Willamette Chief Executive Officer Duane McDougall is busy on four boards of directors, including InFocus Corp. His severance agreement prohibits him from publicly disparaging Weyerhaeuser or its officers, but it hasn't kept him silent. McDougall has continued to count the plant closings, however, and watch the fates of his former co-workers.

"They diluted their stock price to pay down debt, and they've been selling timberland," he continued. "My guess is that they've been accelerating harvests, too.

"The shareholders did all right out of it," McDougall concluded. "Whether it was good for Oregon is a question that will take a while longer to answer."

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