

Managing Lumber Price Risk

A Program to Maximize Margins in the Forest Industry

Lumber prices have been extremely volatile over the last few years due to the robust housing market and supply disruptions. Profitability in the forest products industry is largely dependent on the direction of lumber prices. Trying to manage lumber price risk is an extremely complex process due to the overwhelming number of lengths, widths, grades and species of lumber. What most companies do not realize is that there are ways to manage lumber price risk and successfully manage margins.



“FCStone’s Integrated Risk Management Program is a fundamental business strategy that enables companies to be competitive and survive today’s commodity price environment. It’s smart business.”

FCStone Forest Products Group offers unique market intelligence and innovative financial solutions to address commodity price volatility. Our lumber specialists have significant risk management experience and can make important contributions to your organization. Through the Integrated Risk Management Program (IRMP), FCStone Forest Products Group provides companies with the solutions, tools and platforms necessary to meet budgets, stabilize input prices and secure margins. Our extensive databases and detailed quantitative analyses on your sales and purchases allow us to provide measurable bottom-line results.



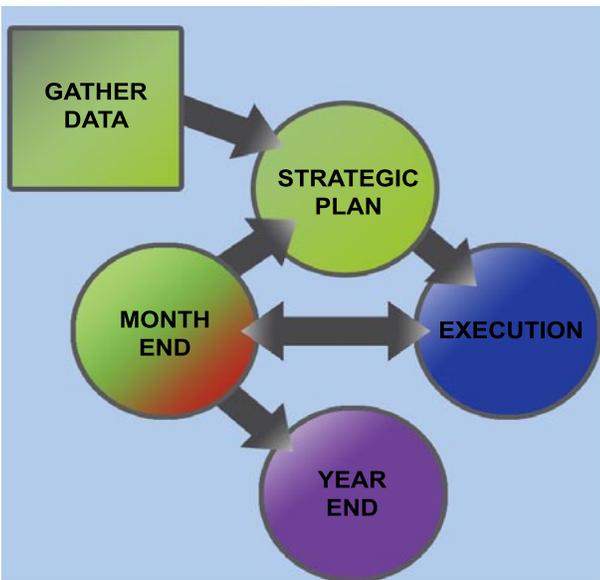
Q. Why should I use risk management as a business strategy?

A. One of the primary objectives of a risk management program is to reduce price volatility and lock in margins. Proper use of risk management techniques can help protect budgets, secure margins, gain competitive advantage, and maintain profitability. FCStone Forest Products Group can reduce the impacts of lumber price volatility allowing you to focus more on your other business priorities.

Q. What is the *Integrated Risk Management Program*?

A. It is a full-service program offered by FCStone that uses a proven systematic process to evaluate and manage commodity price risk. The first step is to understand and quantify the commodity price risks inherent in your business. FCStone then makes recommendations to manage and minimize price volatility. The IRMP program is then accountable for the results of those recommendations, verified through extensive month-end and year-end reports.

IRMP *Performance and Planning Must Tie Together*
Process ▶ Strategic Plan
 ▶ Review ▶ Execution
 ▶ Analysis ▶ Accountability



Q. Who can benefit from managing lumber price risk with the *Integrated Risk Management Program*?

A. Anyone with exposure to fluctuating lumber prices can potentially benefit from the IRMP. Our Forest Products Group consultants currently work with producing mills, remanufacturing operations, office wholesalers, distribution yards, component manufacturers, retail yards and home builders.

Q. Is the *Integrated Risk Management Program* difficult to manage, or time-consuming?

A. The answer to both of these questions is “no.” One of the benefits of engaging an FCStone Forest Products Group consultant is that much of the work is done for you, allowing you to focus on other priorities in your business. Your consultant will develop a comprehensive strategic plan to manage the risks identified in your business, tailored to your organization and risk tolerances.

Q. I only do business with mills that have favorable quality and tallies. Does using the *Integrated Risk Management Program* change who supplies my actual product?

A. No. You will continue to utilize the purchasing relationships that you have with your current trusted suppliers. The FCStone program offers financial solutions to mitigate physical product risk.

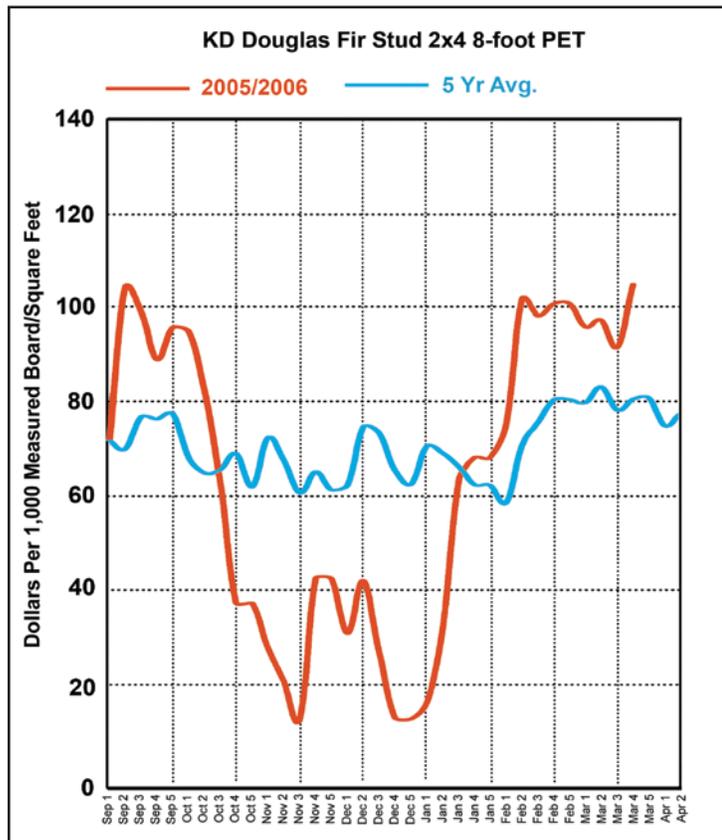
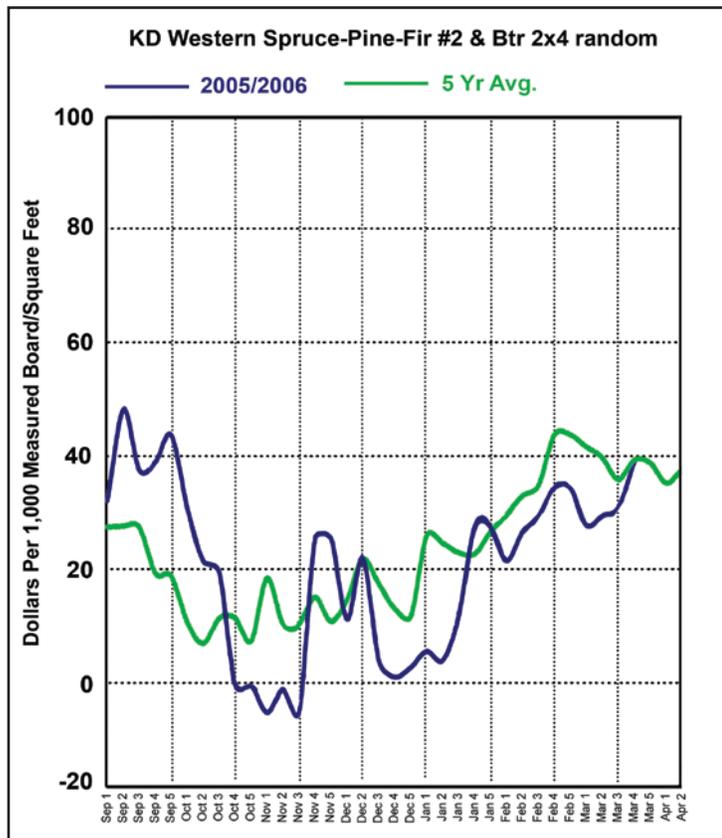
Q. Can I use the IRMP when 2x4 WSPF only represents a limited portion of my product line?

A. Absolutely – many lumber products are highly correlated to 2x4 WSPF and can be part of the IRMP. At FCStone we track the basis between futures and virtually hundreds of cash products and can advise on timing and strategy implementation as part of the IRMP.

Q. What about foreign exchange rates? How does this affect the *Integrated Risk Management Program*?

A. Whether you’re exposed to the Canadian Dollar, Euro or any other currency, FCStone can develop a plan that allows you to manage your exchange rate risks. This is one of many services we offer our clients.

With IRMP, we analyze pricing relationships to find ways to minimize volatility.



Q. Are my competitors utilizing financial transactions like the *Integrated Risk Management Program*?

A. Yes, many of your toughest competitors are actively managing their lumber, currency and fuel prices. We can provide you with the expertise and knowledge required to level the playing field and allow your business to be competitive.

Q. What happens if I don't manage my commodity price risks?

A. There are several things that happen to businesses that do not manage commodity risks, including, but not limited to loss of market competitiveness, missed opportunities for improved margins, and a poor utilization of assets. Most importantly, it is speculation if you do not manage your commodity risks. The IRMP is a fundamental business strategy. In business, we believe it is a fiduciary responsibility to manage these volatile risks which impact bottom-line results.

Q. How does the *Integrated Risk Management Program* work and how does FCStone manage these risks?

A. The FCStone Forest Products Group consultant collects historical data on your business' commodity risks. The data is then analyzed and a customized strategic plan, using the appropriate financial instruments, is developed to address the specific risks identified for your business. As a clearing member of all major North American futures exchanges, FCStone has experience in all the major commodity markets and access to the appropriate financial instruments to manage your commodity risk.

Q. Am I taking on more risk with the *Integrated Risk Management Program*?

A. Risk management is a process in which financial methods known as hedging with futures and options are used to reduce exposure to fluctuating market prices. While commodity trading involves risk, with the FCStone IRMP you are actually minimizing your risk exposure to the volatile lumber markets. Taking no action to limit your risk exposure is one of the biggest risks you'll face in your business environment.

Q. Why should I work with FCStone?

A. FCStone is an independent third party who sits on your side of the desk. Your goals become our goals. Your objectives are our objectives. We provide a consultative approach that enables you to evaluate your commodity price risk objectively. FCStone brings extensive experience in risk management and our unique market intelligence is unparalleled in the commodity markets. The IRMP is a proven business strategy that addresses your management objectives: protecting budgets, stabilizing input prices, and securing margins. By working with FCStone, you have your own risk management department and access to the latest tools and financial instruments.

Q. What other risk management services does FCStone offer?

A. We view commodity risk management from a holistic perspective and work in all of the major commodity areas. Our in-depth understanding of the global foreign exchange and energy markets can add further enhancements to your operations. We assist our lumber clients with their energy related risks and have programs that address natural gas, crude oil and diesel fuel. And, our Fuel Surcharge Management program is designed to protect shipping budgets and stabilize transportation costs. Your Forest Products Group consultant can assess and evaluate these risks as part of the IRMP.

Q. How can I learn more about how the commodity markets work and the tools that FCStone uses to protect against market volatility?

A. As an IRMP participant, you'll have access to training seminars. And, for those clients who want to take a more active role in managing commodity price risk, your Forest Products Group consultant can develop seminars unique to your company's business solutions.

Q. How do I get started?

A. Simply contact an FCStone Forest Products Group consultant at 800-255-6381, ext. 6201. A consultant will visit your operation and explain the program in detail.

Forest Products
Integrated Risk Management Program
Smart business.

FCStoneSM
UNDERSTAND • SIMPLIFY • SUCCEED

Call 1-800-255-6381, ext. 6201
or visit www.fcstone.com