

North America's Top 25 Paper Companies

With total annual sales in excess of \$130 billion and production approaching 100 million mtpy, North America's Top 25 producers employ nearly 400,000 workers.

By Ken Patrick

It's no surprise that International Paper Co. continues to be the top paper producer in North America, in fact the world's No. 1 paper company in terms of sales and production volumes. With 2005 net sales of \$24.097 billion, a production portfolio of some 16 million metric tons per year (mtpy), and 68,700 employees worldwide, IP is a firm No. 1 on the *PaperAge* list of Top 25 North American-based pulp and paper companies.

In compiling this listing based on 2005 figures, net sales and earnings include all categories such as lumber, wood products and other building materials, converted paper and paperboard products, molded pulp products, plastics and other specialty composite products, chemicals, distribution services, and in some cases waste/secondary fiber collection, recovery, and sales. However, production capacities, as accurately as possible, include just pulp, paper/tissue, and paperboard.

Likewise, employee numbers are company-wide for all business segments, not just pulp and paper. Capital spending and research and development allocations are, generally, also consolidated for all business segments, except as noted. Canadian sales, earnings, and expenditures were converted to U.S. dollars as of April 2006, and all production capacities were converted to metric tons.

RUNNERS UP

In terms of net sales, Weyerhaeuser is a close second at \$22.629 billion for 2005, followed by Georgia-Pacific at an estimated \$18.7 billion, which was acquired by U.S.-based Koch Industries late last year and now operates as a private company. Weyerhaeuser had nearly 14 million tons of capacity and 49,887 employees at the end of 2005.

In No. 4 position based on net sales of \$8.396 billion and a production capacity of 8.184 million mtpy, Smurfit-Stone Container Corp. was the only top five company reporting negative earnings in 2005. Last year, the paperboard- and paper-based packaging giant closed machines and/or operations at three mills—Fernandina Beach, Fla. (linerboard), Richmond, Quebec, Canada (linerboard), and Bathurst, New Brunswick, Canada (corrugating medium), removing 700,000 tons of containerboard capacity from the market.

MeadWestvaco rounds out the top five producers with net sales of \$6.170 billion and a paperboard production capacity of some 3.6 million mtpy. The company has 22,200 employees, more than half being located in the U.S.

The Top 6 - 25, in order of sales and production are: Boise Cascade (now owned by Madison Dearborn Partners investment group), Temple-Inland, Abitibi-Consolidated, Domtar, Sonoco Products, Bowater, Canfor, Tembec,

Cascades Group (40% employee-owned), Graphic Packaging Corp. (formerly Riverwood), Packaging Corp. of America, Rock-Tenn, Catalyst Paper (formerly Norske Skog and Fletcher Challenge Canada), NewPage (Cerebus Capital Management/formerly printing and writing paper business of MeadWestvaco),

Potlatch, Wausau Paper, Appleton (100% employee owned), Longview Fibre, Caraustar Industries, and Pope & Talbot.

Almost half (12) of the Top 25 companies reported negative net earnings in 2005. Most of these (10) were concentrated in the 11 - 25 range, with 7 companies being in the bottom 10, indicating that economy of scale continues to be a significant factor in overall profitability. Also, grade portfolios are obviously a major factor, considering that 9 of the 12 companies with losses produce either

**Capital expenditures
in 2005 as reported by
the Top 25 companies
totaled \$5.460 billion.**

newsprint, containerboard, or market pulp, along with other commodity grades such as uncoated free sheet. North American markets for these grade sectors have tended to be sluggish in the recent past.

Figures for Domtar, and the Cascades Group include a best-estimate 50/50 split for their joint-venture Norampac containerboard operations in Canada. Figures for NewPage include coated, carbonless, and other paper grades. In late February of this year, however, the company agreed to sell its carbonless business to Glatfelter for \$80 million

In the face of mounting losses, the Cascades Group permanently shutdown its Thunder Bay, Ont., mill in 2005 (ceased operations Jan. 21, 2006). This mill had an operating income of \$136 million and a loss of \$11.3 million last year. The company also sold its tissue paper distribution business for \$14 million. In a capacity rationalization move, Caraustar Industries closed down 293,000 mtpy of paperboard capacity between 2001 and 2004.

Abitibi-Consolidated figures include 150,000 mtpy of currently idled production. The company permanently removed 344,000 mtpy by closing its Kenora, Ont., and Stephenville, N.F., mills this past December, in addition to 90,000 mtpy removed in the third quarter of last year. A 60,000-mtpy paper machine at Abitibi's Bridgewater mill was also shut down in April.

Not included in the *PaperAge* Top 25 list are Kimberly Clark and Procter & Gamble, who, although they produce and convert considerable amounts of tissue and toweling, are primarily health and personal/home care product producers rather than pulp and paper manufacturers specifically. These two North American-based giants are included in a separate listing further along in this report, along with other major players on the North American paper industry scene—family-owned Kruger, Finland-based Stora Enso, and South Africa-based Sappi.

TOP 25 NORTH AMERICAN PULP AND PAPER COMPANIES

By 2005 Sales/Earnings, Production Capacity, Employees

| Company | Net Sales (\$ millions) | Net Earnings (\$ millions) | Production Capacity (000 mtpy) | No. Employees | North American HQ |
|--------------------------------|-------------------------|----------------------------|--------------------------------|---------------|---------------------|
| 1. International Paper | 24,097 | 1,100 | 15,902 | 68,700 | Stamford, Conn. |
| 2. Weyerhaeuser | 22,629 | 733 | 13,903 | 49,887 | Federal Way, Wash |
| 3. Georgia-Pacific | 18,700e | 650e | 8,600 | 55,000 | Atlanta, Ga. |
| 4. Smurfit-Stone Container | 8,396 | -339 | 8,184 | 33,500 | Chicago, Ill. |
| 5. MeadWestvaco | 6,170 | 28 | 3,560 | 22,200 | Stamford, Conn. |
| 6. Boise Cascade | 5,907 | 121 | 2,627 | 10,155 | Boise, Id. |
| 7. Temple Inland | 4,888 | 176 | 3,202 | 15,500 | Austin, Texas |
| 8. Abitibi-Consolidated | 4,568 | -299 | 6,100 | 14,000 | Montreal, Quebec |
| 9. Domtar | 4,249 | -332 | 3,144 | 10,600 | Montreal, Quebec |
| 10. Sonoco Products | 3,529 | 162 | 2,000 | 17,600 | Hartsville, S.C. |
| 11. Bowater | 3,483 | -121 | 5,210 | 8,000 | Greenville, S.C. |
| 12. Canfor | 3,306 | 84 | 1,335 | 7,018 | Vancouver, B.C. |
| 13. Tembec | 3,067 | -260 | 3,555 | 9,583 | Montreal, Que. |
| 14. Cascades | 2,960 | -83 | 2,263 | 14,300 | Kingsey Falls, Que. |
| 15. Graphic Packaging Corp. | 2,384 | -91. | 1,088 | 7,800 | Marietta, Ga. |
| 16. Packaging Corp. of America | 1,994 | 53 | 2,200 | 8,300 | Lake Forest, Ill. |
| 17. Rock-Tenn | 1,733 | 18 | 1,384 | 9,600 | Norcross, Ga. |
| 18. Catalyst Paper | 1,597 | -22 | 2,500 | 3,800 | Vancouver, B.C. |
| 19. NewPage | 1,564 | -57 | 2,340 | 6,300 | Dayton, Ohio |
| 20. Potlatch | 1,496 | 33 | 850 | 4,100 | Spokane, Wash |
| 21. Wausau Paper | 1,097 | -19 | 815 | 3,000 | Mosinee, Wis. |
| 22. Appleton | 1,047 | -3 | 600e | 3,238 | Appleton, Wis. |
| 23. Longview Fibre | 898 | 10 | 920 | 3,200 | Longview, Wash. |
| 24. Caraustar Industries | 862 | -103 | 977 | 5,440 | Austell, Ga. |
| 25. Pope & Talbot | 849 | -50 | 819 | 2,500 | Portland, Ore. |

Notes: Georgia-Pacific 2005 figures were estimated (e) based on results through Q3 2005 and financial performance in 2004 and 2003. Estimated production figures for Appleton are based on data from a combination of sources (exact data not available).

The growing private non-industry, and foreign-based sectors, on the average, appear to be investing more in their asset bases than the Top 25 companies.

CAPITAL SPENDING/R&D INVESTMENT

Capital expenditures in 2005 as reported by the Top 25 companies totaled \$5.460 billion (see table below). These producers represent 85% - 90% of North American capacity, and thus total capital spending in the North American pulp and paper industry last year can be estimated at around \$6.5 billion, which is somewhat higher than earlier estimates.

The growing private, non-industry, and foreign-based sectors, on the average, appear to be investing more in their asset bases than the Top 25 companies, and 2005 capital

spending could be significantly more than the \$6.5 billion estimate. Kimberly-Clark, for example, reported \$710 million in capital expenditures last year, though it's difficult to determine how much of this actually goes to the paper side, as is also the case with Procter & Gamble. Stora Enso has spent several hundred million dollars upgrading its U.S. assets in the past few years (some \$103 million last year). Kruger and Sappi have also spent considerable amounts.

The preceding table also shows projected capital expenditures for 2006, based on published company intentions or, in a few cases, actual spending patterns over the past few years. Based on \$5.729 billion in capital spending plans by the Top 25 companies, the North American total for 2006 can be estimated at \$6.75 - \$7 billion.

Spending for research and development by the Top 25 companies is all over the board, from \$63 million by International Paper in 2005 and \$61 million by both Weyerhaeuser and Georgia-Pacific, to \$1.1 million by Boise Cascade, \$1.9 million by Appleton, and \$2 million by Canfor. The average annual R&D investment over the past three years is around \$10 million, which has remained fairly steady since 2000.

The Top 25 companies directly employ a total of 393,321 people. Again assuming that these producers represent 85% - 90% of the North American paper industry's total employment ranks, there are currently 450,000 - 500,000 people employed by U.S. and Canadian pulp and paper companies.

OTHER MAJOR PRODUCERS

Two major North American producers of tissue and towel-ing grades—Kimberly-Clark and Proctor and Gamble—have progressively diversified away from paper manufacturing as a business base in recent years, and at least in this report, accordingly are not listed among the top U.S. and Canadian papermakers. K-C, in fact, spun-off its North American paper (Neenah Paper and Technical Paper) operations and Canadian pulp businesses in late 2004, continuing to distance itself from the pulp and paper industry

| TOP 25 CAPITAL SPENDING | | |
|----------------------------------|------------------------------|------------------------------|
| <i>2005 and 2006 (Projected)</i> | | |
| Company | 2005 (\$ million) | 2006 (\$ million) |
| International Paper | 1,155 | 1,200 |
| Weyerhaeuser | 875 | 850 |
| Georgia-Pacific | 820 | 830 |
| Smurfit-Stone | 276 | 365 |
| MeadWestvaco | 305 | 325 |
| Boise Cascade | 170 | 160 |
| Temple-Inland | 224 | 225 |
| Abitibi-Consolidated | 151 | 175 |
| Domtar | 160 | 165 |
| Sonoco Products | 129 | 130 |
| Bowater | 167 | 220 |
| Canfor | 56 | 60 |
| Tembec | 124 | 125 |
| Cascades Group | 110 | 110 |
| Graphic Pkg. Corp. | 205 | 210 |
| PCA | 33 | 105 |
| Rock-Tenn | 54 | 60 |
| Catalyst | 83 | 80 |
| NewPage | 84 | 90 |
| Potlatch | 106 | 75 |
| Wausau Paper | 31 | 35 |
| Appleton | 32 | 35 |
| Longview Fibre | 42 | 45 |
| Caraustar Industries | 24 | 25 |
| Pope & Talbot | 44 | 29 |
| TOTAL | 5,460 | 5,729 |

OTHER MAJOR NORTH AMERICAN PULP AND PAPER PLAYERS*Non-Paper Diversified, Private, or Not Based in North America – 2005*

| Company | Paper Products | N.A. Capacity (000 mtpy) | N.A. Paper Related Sales (\$ millions) | Total Net Sales (\$ million) | Company Headquarters | |
|------------------|-------------------------|--------------------------|--|------------------------------|----------------------------|--------------|
| | | | | | World | N. America |
| Kimberly-Clark | Tissue, Toweling | 1,535 | 5,500e | 15,903 | Dallas, Texas | — |
| Procter & Gamble | Tissue, Toweling | 1,600 | 6,000e | 56,741 | Cincinnati, Ohio | — |
| Kruger | P&W, Tissue, Paperboard | 2,400 | Private | Private | Montreal, Que. | — |
| Stora Enso | P&W Papers | 2,873 | 2,300 | 15,830 | Helsinki, Finland | Stamford, CT |
| SAPPI | P&W Papers | 1,220 | 1,445e | 5,018 | Johannesburg, South Africa | Boston, MA |

proper. Other Major North American Pulp and Paper Players Non-Paper Diversified, Private, or Not Based in North America

With these spin-offs, some 90% of the fiber K-C uses in the manufacture of tissue and personal care (including infant and child care) products is now being sourced from third parties. The remaining fiber (some 450,000 metric tons) is produced internally at the company's pulp mills in Tanttola, Australia, and Everett, Wash. Altogether, K-C uses about 4.5 million mtpy of wood and non-wood (primarily bagasse) fiber in the manufacture of its products, which include consumer and business-to business tissues and towels as well as diapers and other infant and adult/feminine health care products.

In its first year as a separate spin-off operation, Neenah Paper had net sales of \$733 million, with net earnings of -\$26 million in 2005. The spin-off of K-C's pulp mills in New Glasgow, Nova Scotia, and Terrance Bay, Ontario, created a company with 700,000 mtpy of softwood and hardwood kraft pulp capacity and 5.9 million acres of Canadian timberlands.

Procter and Gamble's paper (bath tissues/kitchen and commercial toweling/wipes/diaper fluff, etc.) related sales of an estimated \$6 billion represents only about 10% or less of the company's whopping net sales of almost \$57 billion in 2005. The company is basically a health and beauty care product manufacturer, with a broad array of personal/family oriented products and home and fabric care lines, as well as bath care and kitchen towel offerings and commercial chemical and cleaning products, snack foods/coffee, food ingredients, pharmaceuticals, batteries, etc.

Approaching 2.5 million mtpy of capacity in a variety of grades, including newsprint and groundwood printing papers

as well as tissue and containerboard, Kruger is among the top private company producers in North America. However, lack of accurate financial sales figures makes rating them in the Top 15 listing difficult. In addition to its paper, tissue, and paperboard mills, Kruger also makes lumber and wood products and operates a growing fleet of packaging plants (corrugated containers), and recently created a new energy business unit that includes hydroelectric plants, wind farms, and biomass cogeneration. The company currently has 10,500 employees.

Stora Enso, vying with IP as the world's largest pulp and paper company, has progressively increased its presence in North America since acquiring Consolidated Paper's seven Paper Valley publication paper mills in 2000 to join its existing SC and newsprint mill in Port Hawkesbury, Nova Scotia. Stora Enso's North American operations currently represent 17% of the company's total world production capacity of near 17 million mtpy. In 2002, the company launched a \$250 million "Profit Enhancement Program" for its North American operations, which is now in its final stages. Overall, the company currently has 5,118 employees in North America.

With some 2,780 employees and four coated and uncoated fine paper mills in North America having a combined 1.220 million tpy of capacity, Sappi became a major player on this continent almost overnight. North American sales represent about 36% of Sappi's overall \$4 billion fine paper sales in 2005. With a total world capacity of 4.23 million mtpy of paper and 1.740 million mtpy of pulp (mills in South Africa, Europe, and North America), the company's total net sales in 2005 were approximately \$5 billion. Some 2,780 of Sappi's total 15,600 employees are now in North America. ■