NORTH AMERICAN TISSUE INDUSTRY M&A
A Look at Who, What, Where and Why?

Groundwood/SC Paper
Markets Remain Challenging as Key Markets Continue to Shrink
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Reduced energy
A core and tube producer wanted to increase production, have greater flexibility in its fiber selection and reduce energy use. Buckman applied Maximize to the pulper, which conditioned the fiber faster with less refining energy, preserving fiber strength. Speed increased 10%. Refining energy decreased 30%. And tensile strength increased from 20 to 26 kgf/15mm.

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Commitment makes the best chemistry.
FEATURES

22 North American Tissue Industry Flush with M&A Activity

$700 million+ changed hands in 2015 alone as tissue companies positioned to take advantage of shifts towards private label driven by less brand loyal Millennials, and printing and writing producers try to break into the tissue market.

28 Focused Growth

SCA has proposed a split of the company into two independent groups: forest products and hygiene, and the strategy presents interesting development and restructuring opportunities for both parts.

COLUMNS

18 The Big Event Each Fall

National Forest Products Week, recognized each year during the third week of October, is an opportunity to bring focus to the enormous contributions that the more than 900,000 Americans who work in our industry make to the country.

20 Market Grade: Groundwood/SC Papers

Demand data through the first half of 2016 confirm that the U.S. market for both coated and uncoated groundwood papers continues to shrink. After posting a modest decline early in the year prices appeared to stabilize during the second quarter but additional declines in July have brought prices down to very low levels.

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New scientific work explains why corrugated packaging outperforms returnable plastic containers (RPCs) when it comes to micro-biological contamination.

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ST Tissue announces a $35 million capacity expansion project at its tissue mill in Franklin, Virginia, that includes the addition of a 50,000 ton per year dry crepe machine.

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Tissue is Flying in North America

By John O’Brien, Managing Editor
jobrien@paperage.com

The North American tissue market is the largest in the world, and since the start of 2015, demand, especially in the U.S., has picked up substantially.

In step with the region’s rising appetite for tissue products, a lot has been happening on the supply side. According to Poyry, over $700 million has changed hands in 2015 through mergers and acquisitions (see story on page 22). A big portion of that amount was Sweden’s SCA acquiring of Wausau Paper for $513 million. The deal brings Wausau’s two mills, which produce bath, towel and facial products for the Away-from-Home (AfH) market, to SCA’s North American portfolio.

Also in the AfH market, Italian tissue producer Sofidel, who acquired Cellynne Paper in Florida in 2012, announced plans for expansion in the US with the acquisition of two converting plants (Hattiesburg, MS and Green Bay, WI) from Green Bay Converting in November 2015. In addition, Sofidel announced a $120 million investment at the Hattiesburg plant, and beginning this November plans to invest over $300 million over three years, including a new integrated mill in Circleville, Ohio, startup of which is expected in 2017.

“North America represents the biggest AfH market in the world with stable growth. While SCA did make moves in 2012 and 2013 in Europe and Asia, respectively, the European market has become bleak in terms of growth especially in the US, has picked up substantially. SCA’s acquisition of Wausau increases

Kilpi points out that as a result of the Atlas deal, Resolute gains an immediate customer base for a product in which it has no experience. “With the former Atlas assets in Florida and a future mill and converting facility in Tennessee (Calhoun mill), Resolute has set up a footprint in the US Southeast to serve both retail and AfH markets. The move also allows Resolute to further integrate its own pulp.”

Resolute expects the new tissue machine and converting operations being built at its Calhoun pulp and paper mill to startup during the first quarter of 2017. At full production the operation will produce about 66,000 short tons per year of at-home, premium bath tissue and paper towel, focused on the growing private-label market.

In a greenfield project, Tranlin, the U.S. subsidiary of Chinese pulp and paper producer, Shandong Tranlin Paper Co., Ltd., plans to build a $2 billion tissue production and converting mill in Chesterfield County, Virginia. The plant is expected to begin limited production of bathroom tissues, paper towels and napkins in 2018 by importing rolls of paper from China and become fully operational in 2020. That timeline has, however, come under some pressure lately. According to an Aug. 8, 2016 story in the Chesterfield Observer, “there is little physical evidence that much has happened [at the site].”

Most recently, Tak Investments, owner of tissue mills in Oconto Falls, Wisconsin and Franklin, Virginia, on Sept. 27 announced a $40 million expansion project at its Franklin facility — ST Tissue — that includes the addition of a 50,000-ton per year dry crepe machine, alongside the mill’s existing 70,000-ton-per-year wet crepe machine. The company is also adding some downstream equipment that will allow it to provide customers with outsourced towing finished goods.

There’s a lot going on in the tissue market and it should be interesting to see how everything plays out.
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Weyerhaeuser Completes Sale of Liquid Packaging Board Business

Weyerhaeuser Company on Aug. 31 said that it completed the sale of its liquid packaging board business to Nippon Paper Industries Co., Ltd. for $285 million in cash.

Weyerhaeuser expects to use a substantial portion of the approximately $225 million of after-tax proceeds for repayment of debt.

The liquid packaging board business consists of one mill located in Longview, Washington, with an annual capacity of 280,000 tons. “Nippon Paper Industries is acquiring a strong portfolio of high quality products and a well-regarded employee team that has contributed much to Weyerhaeuser over the years,” said Doyle Simons, President and CEO of Weyerhaeuser. “This transaction further focuses our company as we work together to be the world’s premier timber, land, and forest products company.”

Nippon Paper noted that as of Sept. 1 the company will be known as Nippon Dynawave Packaging Co., a new consolidated subsidiary established in the United States.

In addition, Nippon Dynawave Packaging engaged NP Trading Co., Ltd., also a subsidiary of Nippon Paper Industries Co., Ltd., to act as its sole agent for the Japanese market.

Resolute’s Calhoun Tissue Operation on Track for First-Quarter 2017 Start-Up

Resolute Forest Products announced the completion of commissioning of the first tissue converting line at its state-of-the-art tissue facility currently under construction in Calhoun, Tennessee. The remaining two lines will be commissioned by year-end.

“We are on schedule with the $270 million project, our largest investment since 2010,” said Richard Garneau, Resolute’s President and CEO.

“The first production of bath tissue and towel came off the converting line on August 17, representing an important milestone. We are confident that the new tissue machine will be operational as planned, in the first quarter of next year,” he added.

Resolute’s new tissue machine and converting operations are being built at its Calhoun pulp and paper mill. At full capacity, the facility will produce approximately 66,000 short tons per year of at-home, premium bath tissue and paper towel, focused on the growing private-label market.

Construction of the Valmet-supplied Advantage-NTT machine is underway.

“We are proud to have one of the most modern and flexible NTT machines, specifically designed for the retail market in North America,” Garneau said. “It is important to position ourselves as a preferred supplier to major private-label retailers by delivering the highest quality product for their store brands.”

KapStone to Invest $25 Million in Converting Assets

KapStone Paper and Packaging is making an investment in building a new state-of-the-art sheet plant in Ontario, California, as well as investing as a minority partner in a sheet feeder in Ontario, California.

The new sheet plant is expected to be manufacturing boxes by January 2017 and is intended to primarily supply the company’s Victory Packaging operations in Southern California as well as other KapStone customers.

This venture, as well as another minority investment in a sheet feeder, are expected to increase KapStone’s vertical integration by over 60,000 tons per year and will ramp up to that level over eighteen months. Collectively, these investments are expected to be approximately $25 million and will be largely funded before fiscal year end 2016.

“These investments are consistent with our strategy to increase the vertical integration of KapStone’s mills, reducing exposure to non-integrated end markets, and are in addition to the 20,000 to 25,000 tons per year vertical integration from the Central Florida Box acquisition,” said Roger Stone, Chairman and CEO of KapStone.

“The Ontario, California, sheet plant will further extend our geographic reach to better service KapStone’s customers while internalizing the production of some of our Victory Packaging corrugated box demand,” Stone added.
industry 4.0, big data or the internet of things – the networking of processes and communication between machines – are what will shape the future. digital advances are making it possible, especially a powerful and widely accessible internet. voith has not only ventured a look into the future but is already offering specific solutions that are making “papermaking 4.0” a reality today.
NORTH AMERICA

Wingate Partners Sells Dunn Paper to Arbor Investments

Wingate Partners, a Dallas-based private equity firm, completed the sale of its portfolio company, Dunn Paper, Inc. to Arbor Investments, a Chicago-based private equity firm. Dunn is a U.S. manufacturer of specialty papers and tissues for food packaging and consumer product markets.

Terms of the deal were not disclosed

Brent Earnshaw, Dunn’s CEO, commented, “Wingate has been a great partner. They have brought a wealth of experience and a low-ego, highly approachable style that has made them a pleasure to partner with. The Dunn team looks forward to continuing our growth with our new partners at Arbor.”

Wingate partnered with the Dunn management team to acquire the business in July 2010.

Caraustar Industries Acquires Los Angeles Paper Box

Caraustar Consumer Packaging has acquired Los Angeles Paper Box, a folding carton and rigid box company specializing in supplying the food industry.

Terms of the deal were not disclosed. Los Angeles Paper Box is located in Commerce, California and has been serving customers for over 100 years.

“With the acquisition of Los Angeles Paper Box, we will service our West Coast customers in a more efficient manner,” said Dean Dietrich, Vice President and General Manager of Caraustar Consumer Packaging. “We also are pleased that we are expanding our product assortment available to the food industry by offering a large variety of custom and stock packaging containers.”

Port Townsend Paper Completes First Stage of Compressed Natural Gas Conversion

Port Townsend Paper in July brought the first stage of a three-stage plan to convert its main fossil fuel source from oil to compressed natural gas online. The natural gas conversion represents a $3.1 million investment.

The company said that the conversion will allow the pulp and paper mill to achieve cleaner air emissions while improving its competitiveness.

“The new fuel is burning cleanly. This is an innovative step for us and our community as we are the first large manufacturer in the State of Washington to use compressed natural gas as a main fossil fuel source,” said Kevin Scott, Engineering and Environmental Manager of Port Townsend Paper.

When all three stages of the conversion are online in 2016, the conversion is expected to reduce greenhouse gas emissions by approximately 25 percent from its current level. This reduction would continue a decade-long trend during which Port Townsend Paper reduced its greenhouse gas emissions from fossil fuels by nearly 60 percent.

The company also expects the conversion to make it more competitive by increasing the efficiency of its boiler and significantly reducing its fuel cost over time.

EUROPE

Södra Breaks Ground for Pulp Mill Expansion Project at Mörrum

On Sept. 13, ground was officially broken for the new evaporator and brown stock washing system at Södra’s pulp mill at Mörrum, Sweden. The investment decision was announced earlier this year in February.

Mill Manager, Stefan Sandberg, said, “This investment will enable us to grow with our customers by increasing the production rate for paper and dissolving pulp. The energy balance at the facility will also be improved, which means we can increase our deliveries of district heating and biofuels.”

The project, which is scheduled for completion by November 2017, will enable the pulp mill to increase its total production capacity from 425,000 to 470,000 tonnes per year.

Södra’s investment is the second stage of a long-term focus on the pulp mill at Mörrum and brings Södra’s total investment in the facility to SEK 1.7 billion (approx. $198.6 million).
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SCA to Split Business into Two Listed Companies in 2017

SCA’s Board of Directors in late August announced plans of a proposal to divide the Group into two divisions: a hygiene division and a forest products division.

“For the Annual General Meeting 2017, the Board of Directors plans to present a proposal for the distribution and listing of the company’s hygiene business,” said Pär Boman, Chairman of the Board of Directors of SCA.

“It is the Board of Directors’ opinion that the proposal to split the hygiene and forest products businesses into two listed companies increases the ability for each business to successfully realize its strategies and increase value for SCA’s shareholders,” Boman explained. “It is also pleasing that the main shareholders will support the proposal at the Annual General Meeting.”

Magnus Groth, President and CEO of SCA, noted, “Our hygiene and forest products businesses are two strong operations with attractive offerings in their respective industries. After a thorough analysis, our conclusion is that a split of SCA into two listed companies is the best way to continue to create shareholder value, customer benefits and further development opportunities.”

Effective as of late-August, SCA’s Directors appointed by shareholders and CEO, Magnus Groth, have, in addition to current assignments, also been appointed the Board of Directors and CEO of the parent company for the hygiene business.

SCA also said that it intends to appoint Ulf Larsson, current President of SCA Forest Products and a member of the Executive Management Team, CEO of the listed forest products company after the distribution of the hygiene business.

SCA added that it intends to give the new listed hygiene company a new name and register it in Stockholm. The forest products company will keep the name SCA and be registered in Sundsvall.

Editor’s note: See story on page 28.

Stora Enso Plans Consolidation of Corrugated Packaging Production in Finland

Stora Enso announced plans to consolidate manufacturing of corrugated packaging in Finland to its Lahti plant. The objective is to improve profitability and competitiveness by creating a center of excellence for corrugated packaging in Lahti (southern Finland).

As part of the possible consolidation, Stora Enso would invest approximately EUR 19 million in new machinery and supporting infrastructure in Lahti, where the most important individual investment item is a new corrugator. The proposed project is planned to start in November 2016 and is expected to be finalized by the end of the first quarter 2018.

As part of the plan, the Heinola corrugated plant would be closed permanently and packaging manufacturing transferred to the Lahti plant.

“The plan to potentially consolidate our corrugated operations in Finland is largely driven by the need to improve profitability and strengthen our competitive edge,” explained Peter Torstensson, SVP and Head of Corrugated Nordics, Division Packaging Solutions. “In addition to the planned investment, our strong infrastructure in Lahti would provide us with a world-class asset base to better serve our customers.”

Stora Enso noted that the possible personnel reduction within the corrugated plants in Lahti and Heinola combined is about 60 people. Decisions regarding the planned consolidation, closure and employee reduction will be taken after the co-determination negotiations have been concluded.

The corrugated packaging production at the Kristiinankaupunki plant will be continued, and the Heinola fluting mill for containerboard will not be affected.

Stora Enso Completes Sale of Kabel Paper Mill to Investor Group

Stora Enso said that it has completed the sale of its Kabel coated mechanical paper mill in Germany to Kabel Premium Pulp & Paper GmbH, owned by a German based investor group.

The total cash consideration for the mill was about EUR 25 million, subject to final closing adjustments.

Based on 2015 annual figures, the transaction decreases Stora Enso’s annual sales by approximately EUR 300 million and simultaneously decreases Stora Enso’s annual coated mechanical paper production capacity by around 485,000 tonnes.

The Kabel Mill employs approximately 540 people and was part of Stora Enso’s Paper division.
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KĀDANT

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EUROPE

Dunapack to Acquire Corrugated Business of Camis Ambalaj Sanayi in Turkey

Dunapack Packaging recently signed an agreement to purchase the corrugated business of Turkish packaging producer Camis Ambalaj Sanayi A.S. The company specializes in shelf-ready, transportation and storage packaging.

The Eskisehir-based corrugated packaging plant of Camis Ambalaj Sanayi is located 280 km southeast of Istanbul with an annual sales volume of about 80,000 tons of corrugated packaging. The plant supplies clients in the food, beverage, glass, fresh fruit and vegetable industry sectors.

With this acquisition, Dunapack will operate four box plants in Turkey and be represented in 10 countries, with 18 corrugated plants. In addition, Dunapack will increase its overall sales volume to 900,000 tons of corrugated packaging, which is an important step to reach the company’s strategic goal of doubling its production within the next years.

RUSSIA

Ilim Group Signs Strategic Partnership with Anhui Publishing Group

Russian pulp and paper producer Ilim Group recently signed a strategic partnership agreement with Anhui Publishing Group, a leading publishing house in the Chinese province of Anhui.

Under the agreement, the parties will strengthen their partnership, which is aimed at promoting Ilim Group’s products in the Chinese market. The companies plan to increase the volume of pulp and paper sales to 100,000 tons of products per year.

Anhui Publishing Group is a major publishing holding which includes publishing houses, and benefits from state contracts for printing textbooks and other literature.

Ilim Group’s partnership with Anhui Publishing Group started in 2006. Since then, the annual sales volume of Ilim Group has continued growing and has exceeded 400,000 tons, which corresponds to USD 100 million.

During 20 years in China, Ilim Group sales in this market have totaled 15 million tons of pulp and paper. The company supplies the largest range of pulp and paper products to China among all international producers. The key products the group sells in China include softwood and hardwood pulp and cardboard.

Ilim Group works with more than 55 direct buyers in China, and over 500 Chinese factories purchase the company’s products.

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India’s Paper Production Capacity on Pace to Reach 20 Million Tonnes by 2020

Sept. 27, 2016 (excerpt from PrintWeek - India) - The 55th AGM and Conference of the Federation of Paper Traders Associations hosted its magnum opus celebration at the Grand Hyatt, Mumbai. The event, which was attended by more than 800 paper traders from across India, saw JK Paper’s vice chairman and managing director Harsh Pati Singhania address the gathering as the chief guest at the conference.

Singhania strongly feels that India is the fastest growing paper market globally. He said the Indian paper industry is growing at over 7 percent and projected to grow at over 4 percent per annum till 2030. This is translated into 20 million tonnes in 2020 and 27 million tonnes by 2030.

Singhania noted, “Digital India is not a threat to the paper industry but an opportunity due to the additional usage of paper and paper materials.” He added, “The paper industry has huge potential to grow as the per capita consumption of India is only 11 kgs as compared to 26 kgs in Asia and 56 kgs globally.”

Demand for better quality packaging of FMCG products marketed through organized retail, rising healthcare spends, over-the-counter medicines and increasing preference for ready-to-eat foods are the key demand drivers for paperboard.

Singhania gave the government programs a thumbs up. He felt the “Make in India” project by the government of India will boost the demand for packaging.

The market for writing and printing paper is expected to grow by about 6 percent annually over the next five years. As a result, the market for printing and writing paper will expand from the current 4.8 million tonnes in 2015-16 to about 5.8 million tonnes per year by 2018-19.

Today, the growth driver for packaging board indicates a healthy 15 percent growth per year. The overall industry, including paper and board, will surpass 20 million tonnes by 2020 from the current size of 15 million tonnes.

Singhania also mentioned a recent visit to Brazil to study the paper mills and the technology and processes in that country. He expressed his concern about the price of wood, which is the main raw material for paper industry. He felt, this is higher in India compared to most other countries and emphasized the need of favorable policies for plantations.

“The current wood requirement of the Indian paper industry is 10 million tonnes against availability of 9 million tonnes. The scenario is likely to improve in next two to three years because of extensive plantations done by the industry by way of social farm forestry,” Singhania said.

Commenting on JK Paper’s performance, Singhania said the company recorded 15 percent growth in gross revenue in 2015-16 and hopes to continue the double digit growth.

“The improvement in performance is mainly due to higher production and sales, enriched product mix, continuous improvements in operating efficiencies and input cost reduction in comparison with corresponding quarter,” concluded Singhania.
Voith Paper will supply Little Rapids Corporation’s paper mill in Shawano, Wisconsin with a new tissue paper machine that will replace the mill’s existing PM3.

The new machine, which will be delivered by Voith Paper Brazil, will produce 119 metric tons per day of tissue paper at a speed of 1830 m/min. Except for the existing Yankee dryer, which will be reused, all other machine’s components will be new and based on Voith’s machine model VTM 3.

In addition to the new tissue machine and auxiliaries, Voith’s scope of supply includes stock preparation, approach flow system, steam box, dust and mist removal systems, DCS systems and field services.

The project is scheduled to start in fall of this year, and start-up is expected towards the end of 2017.

Kadant Solutions, a division of Kadant Inc., announced the launch of its Yankee Safe™ program developed to protect the Yankee and specific components used around and on the Yankee throughout their life cycle. The program is designed to aid tissue makers in controlling chatter, minimizing upsets, reducing vibration, decreasing grinds, decreasing blade changes, and providing consistent quality.

The Yankee Safe program includes products such as the Blade View™ measurement device that digitally analyzes blade wear and profiles to the Yankee crown, and services such as Yankee doctor profiling, alignment, and preventative maintenance.

According to Jerry Vandoros, product manager at Kadant Solutions, “The Yankee is a critical asset and we believe we are in a unique position to help the tissuemaker safeguard this investment. We take a holistic approach and develop a close partnership with the mill. With our Yankee Safe program, it is possible to maximize production and efficiency while enhancing safety around the Yankee at the same time.”

To learn more about Kadant Solutions’ Yankee Safe program, please visit: www.kadant.com.
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OCTOBER 6, 2016
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Appleton, Wisconsin, USA
www.paperhall.org

OCTOBER 12-14, 2016
MIAC Exhibition
Edipap Srl
Exhibition Centre of MIAC
Lucca, Italy
www.miac.info

OCTOBER 17-20, 2016
SuperCorrExpo
TAPPI and AICC
Hyatt Regency Orlando
Orlando, Florida, USA
www.supercorrexpo.org

OCTOBER 24-26, 2016
BLRBAC Fall 2016 Meeting
Black Liquor Recovery Boiler Advisory Committee
Crowne Plaza Hotel (Atlanta Airport)
Atlanta, Georgia, USA
www.blrbac.org

OCTOBER 25-28, 2016
PAP-FOR
Reed Exhibitions
EXPOFORUM, Pavilion F
St. Petersburg, Russia
www.papfor.com

OCTOBER 26-28, 2016
PPC Fall Meeting and Leadership Conference
San Antonio Marriott Riverwalk
San Antonio, Texas, USA
www.paperbox.org

NOVEMBER 2-4, 2016
RISI International Containerboard Conference
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Westin Chicago River North
Chicago, Illinois, USA
www.risiinfo.com

NOVEMBER 16-18, 2016
ASPI Fall Customer Alignment Meeting
Association of the Suppliers to the Paper Industry
Hilton Atlanta Northeast
Norcross, Georgia, USA
www.aspinet.org

NOVEMBER 22-24, 2016
European Paper Week
CEPI
Radisson Blu Royal Hotel
Brussels, Belgium
www.cepi.org/EPW

2017
FEBRUARY 13-17, 2017
Paper Week Canada
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Catalyst Paper announced that Frank De Costanzo, Senior Vice President and Chief Financial Officer, left the company on Sept. 30 to pursue a CFO position with another organization. Gerrie Kotze, the company’s Corporate Controller has been named as Vice President, Finance to replace De Costanzo on an interim basis.

Case Paper Company announced that Yvonne Blessing recently joined the company as Senior Account Manager in Case Paper’s Charlotte, North Carolina office. Blessing has 30 years of experience in the paper and paperboard industry.

CTI Paper USA has named Gerard Vail as Vice President-Sales and National Accounts. He will hold an equity position in the company. Vail most recently served as sales director at Finch Paper.

Fortress Paper Ltd. has appointed Giovanni Iadeluca as President of the company’s Dissolving Pulp segment, effective October 3. Iadeluca replaces Yvon Pelletier, who will continue on in his capacity as CEO of Fortress Paper.

Glatfelter said that John Stachowiak has joined the company as the Vice President of Internal Audit. Stachowiak most recently served as Vice President, Internal Audit with The Hershey Company.

KapStone Paper and Packaging announced that effective January 1, 2017, Roger Stone is stepping down as KapStone’s CEO, but will retain his role as Executive Chairman of the Board. Matt Kaplan will assume the responsibilities of the CEO and continue as KapStone’s President.

Also at KapStone, Randy Nebel will be promoted to Executive Vice President of Integrated Packaging. He has been VP and GM of the KapStone and President of the company’s Mill Division since August 2013. Tim Keneally will retire from his position as VP, GM and President of the Container Division. Bill Kessinger, currently VP and Mill Manager at Roanoke Rapids, will be promoted to Vice President and General Manager of the Mill system; and Pat Ortiz, currently Mill Division Director of Engineering, Environmental Affairs, and Safety, will be promoted to Vice President and General Manager of the Corrugated Container system.

Monadnock Paper Mills announced that Will Fuller has joined the company as Vice President Business Development. Fuller comes to Monadnock from Transilwrap, where he managed national accounts.

Orchids Paper Products Company said that Rodney D. Gloss joined the company on Sept. 12 as Chief Financial Officer. Previously, between 2011 and 2016, Gloss served as VP and CFO of Atta Resources Ltd.

Rottneros announced that its Chairman, Rune Ingvarsson, has decided to leave the post due to personal reasons. Board member Per Lundeen has been elected to serve as Chairman until Rottneros’ Annual General Meeting 2017.

WestRock has named Bob Feerer as President of Consumer Packaging, and Jeff Chalovich has been named President of Corrugated Packaging. Jim Porter, who currently serves as President of Paper Solutions, will transition to a new role as President of Business Development and Latin America, and Craig Gunckel has been named President, Enterprise Solutions.

Industry Suppliers

The American Forest & Paper Association (AF&PA) has selected Barbara Riley as communications director. Most recently, she served as Communications Director to Congressman Ander Crenshaw of Florida.

The Paperboard Packaging Council (PPC) announced that Jim Sotiropoulos has joined the association’s staff as Director of Member Relations. Prior to joining PPC, Sotiropoulos served as Executive Director for a 501(c)3 non-profit.
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This fall our country will undertake an important event that will recognize how far we’ve come. We’ll consider our progress and make important decisions about the work ahead.

While the rest of the world is focused on the U.S. Presidential election, the forest products industry is busy educating public officials, community stakeholders, and employees about the value we bring to consumers and communities across the country.

National Forest Products Week, recognized each year during the third week of October, is an opportunity to bring focus to the enormous contributions that the more than 900,000 Americans who work in our industry make to the country.

This year in particular those contributions go well beyond making world-class products. National Forest Products Week 2016 will be a chance to acknowledge the measurable progress on the paper industry’s sustainability leadership.

Sustainable practices are the foundation of the forest products industry. AF&PA members are committed to promoting sustainable manufacturing practices and ensuring our resources will be as available for future generations as they are today. That commitment is what led to the creation of our Better Practices, Better Planet 2020 sustainability initiative, which includes one of the most extensive sets of sustainability goals established for a U.S. manufacturing industry.

This year our biannual sustainability report documents significant progress on many of these goals, including: a record high recovery rate for paper of 66.8 percent; and exceeding our goals to reduce greenhouse gas emissions (achieving 16 percent reduction) and improving our workplace safety incident rate (reducing the rate by over 40 percent).

Our commitment to environmental sustainability is equally matched by our commitment to maintain and grow our economic contribution to our country and foster the well-being of the communities in which we operate. The products we
make are at the center of that economic commitment and National Forest Products Week.

Forest products really are essential to society. Lumber, joists and particle board are essential to building energy efficient, sustainable houses. Hand written cards and letters are cherished by friends and loved ones.

We use paperboard to safely and hygienically package milk, cereal and other food items. Then we use Kraft paper to create the recyclable, renewable paper bags with which we carry those groceries out of the store.

We help others protect valuable shipments when using corrugated boxes. And our products protect against transfer of germs through gauzy textured paper converted to napkins, paper towels, facial and bathroom tissue.

Pulp serves as the feedstock for the entire Christmas wish list experience. Pulp is used to produce paper for magazines and catalogues that companies and consumers rely on for the latest product developments. Pulp is used to produce paper and envelopes for kids to send their wish lists to Santa Claus. And of course paper is used for Santa’s list that he checks twice.

In fact, even mornings don’t really work without paper products. Coffee filters and k-cups or paper tea bags are used to fill paper cups on the way out the door to work, school or errands. Add a newspaper and maybe a napkin for a muffin. Take the paper products away from mornings and you have a caffeine free, uninformed – and messy – start to the day.

The list of forest products extends into almost every corner of our lives and the Americans who go to work every day to make them extend into almost every corner of the country. Employees in more than 5700 facilities produce $238 million in products every year. That’s one reason why the forest products industry is among the top 10 manufacturing sector employers in 45 states.

Overall, these statistics tell an incredible story about the nation’s forest products industry. This October 16 to 22, National Forest Products Week will help provide a megaphone for that story to tell Americans of all political stripes how far we’ve come and where we plan to go. I hope you join us in telling our story to celebrate forest products this year by using #CelebrateFP.
Groundwood Markets Remain Challenging As Demand Shrinks

Demand data through the first half of 2016 confirm that the U.S. market for both coated and uncoated groundwood papers continues to shrink. After posting a modest decline early in the year prices appeared to stabilize during the second quarter but additional declines in July have brought prices down to very low levels. The outlook remains challenging as key markets continue to shrink making additional capacity shuts likely in order to just stay even.

By Harold M. Cody

Groundwood paper markets continue to bump along on a pretty rough road through the three-quarter mark of 2016. Market conditions for coated and uncoated groundwood remain “challenging” as one major producer noted in their second quarter report. Demand in the U.S. continues to contract with the most recent data for the second quarter of 2016 confirming that underlying demand for almost all grades continues to shrink.

North American demand for coated groundwood dropped 6.1% in the second quarter compared to year earlier levels, while demand for coated freesheet fell by 5.4%, according to published reports. Demand for uncoated mechanical grades, which includes supercalendered (SC), machine finish and lightweight directory grades, fell by a similar but slightly lesser amount, dropping 4.5% vs. the second quarter of 2015. Lower advertising expenditures in key print media as well as lower retail page counts are major contributors to the decline.

SHRINKING DEMAND

Year-to-date, through the first half of 2016, North American demand for coated groundwood grades is off by 7.7% vs. 2015, at 1.46 million tons, while uncoated demand was down 4% at 1.6 million tons.

In 2015, demand declined for all major grades. Coated freesheet slipped 4.4% to 4.3 million tons while coated groundwood posted a much larger drop of nearly 10% to 3.2 million tons. Uncoated groundwood consumption also fell significantly, off about 10% to 3.5 million tons.

Inventory levels have also been rising for coated groundwood in recent months which is a further indication of weak fundamentals.

Canadian mills have also been impacted by the Canadian dollar and exchange rates continue to be a key factor. During the second quarter of 2016, a stronger Canadian dollar was a negative factor vs. first quarter 2016, but compared to the second quarter last year it was a positive impact as it was weaker than a year ago.

Recent data on U.S. mill shipments were a little more balanced, but not by much. June coated freesheet shipments increased 1% compared to June 2015. Imports of coated freesheet dropped 21% in May with exports down 8% year-over-year. In contrast, coated mechanical shipments plummeted in June vs. the prior year, falling 19%, while imports posted a 6% gain in May compared to May 2015 with exports down 41%. Coated imports from Europe rose 14% in the second quarter 2016 compared to 2015. Shipments of uncoated groundwood increased slightly in June, up just under 1% vs. June 2015 levels, the first year-over-year increase in a year and a half. Uncoated imports were down 7% in May while exports decreased 23% compared to the previous year.

The decline in groundwood paper demand is, as noted, due to several factors. One is the continuing challenges faced by magazines, which are a key use for coated grades and in particular for coated groundwood.

One indicator of magazine volume and, in turn, of paper demand is the USPS’s Periodicals Class mail volume data. Over the last 15 years volume has dropped by almost one half, demonstrating the long term secular decline of printed magazines. Recent data show a similar trend. For example, periodical volume declined 6%, 5%, and 4%, respectively in 2013, 2014 and 2015 (using USPS fiscal year). The rate of decline is slowing according to these data, but that’s about the only good news.

WEAK PRICING FOR GROUNDWOOD GRADES

In line with poor and declining demand, prices have also weakened recently on most groundwood grades. In contrast,
freesheet grades and newsprint prices have posted modest gains recently. While the declines have been relatively modest — $20/ton in July on coated groundwood — it continues a downward trend that has brought prices for both SC and coated groundwood grades to the lowest levels since prices last hit bottom in 2010. The declines in late summer followed stable prices for most of the second quarter. Weak demand combined with supply from Europe aided by the strong dollar contributed to the declines. Prices have been trending down more or less steadily since early 2014 on SC grades and for about 12 months for coated groundwood.

Prices are now at very low levels and margins are under extreme pressure. The strong dollar has also been a factor by limiting exports, although groundwood papers have not historically been a major U.S. export product, while aiding imports from offshore and Canada. On the bright side, weaker prices may have contributed to a pullback, or at least a leveling, in coated imports recently. Coated groundwood imports surged last year rising over 15%, but so far this year imports are up only modestly year-to-date.

The SC paper market has also been buffeted by external factors notably the imposition of countervailing duties on Canadian imports of SC paper. The rate was set at an average of just under 19% in October 2015. An additional major development was that SC capacity in the U.S. posted a major decline this year following the late May closure of the 240,000 tpy UPM/New York Times Madison Paper SC mill. It came as a bit of surprise given the recent action on tariffs. Following its closure, Canadian mills will supply almost two-thirds of U.S. SC demand, which is now roughly estimated as a 2-million-ton market. Europe supplies just over 300,000 tons to the U.S. and Verso’s Duluth, Minnesota mill supplies about 15%.

**OUTLOOK**

The outlook is expected to remain challenging. Prices may bounce back some since they are at what would appear to be unsustainable levels that will, combined with plummeting demand, lead to additional capacity closures and possibly further industry consolidation. However, unless an external factor such as a major exchange rate shift comes into play unexpectedly, the pressure from imports combined with slipping demand will likely lead to additional closures and keep groundwood markets under pressure. Prices may improve some when the closures occur and shortly thereafter, but the overall picture is for tough times to continue.

Harold Cody is a contributing writer for PaperAge. He can be reached at HaroldCody@paperage.com.
North American Tissue Industry Flush with M&A Activity

$700 million+ changed hands in 2015 alone as tissue companies positioned to take advantage of shifts towards private label driven by less brand loyal Millennials, and printing and writing producers try to break into the tissue market.

By Soile Kilpi and Patricia Marques
Poyry Management Consulting North America

Recent North American tissue merger and acquisition (M&A) activity has involved both mill and converting assets, and strategic and financial investors. Over $700 million changed hands in 2015 alone. Mill acquisitions shift industry concentration more dramatically, but transactions involving converting also shake up the industry by changing the customer landscape. Exploring the who, what, where and why of these transactions can provide some glimpse into possible future trends in tissue M&A:

• Who is buying? Which companies are involved in tissue M&A?
• What types of assets are involved? Mills or converting? Which tissue segments are these assets involved in? Retail or Away-from-Home (AfH)? Branded or Private Label?
• Where are the assets being bought and sold located?
• Why are these companies getting involved in tissue? Looking at who, what, where and why also leads to additional questions. With a number of assets changing hands over the past few years, how many more deals can be expected in the future? How will current industry players react? Will the industry see new market participants?

WHO HAS BEEN ACTIVE IN TISSUE M&A?

European players have been active in North American tissue M&A. Both SCA and Sofidel have made considerable moves to increase their market share.

In the AfH segment, Swedish tissue giant SCA increased its market share with the acquisition of Wausau Paper, announced in October 2015 for $513 million. Wausau adds two mills to SCA’s North American portfolio. Wausau’s mills produce bath, towel and facial products for the AfH market. The mills’ locations in Ohio and Kentucky give SCA even greater access to the US Northeast, Midwest and Southeast. The Kentucky mill also brings with it a PM that is less than three years old with ATMOS technology.

This is SCA’s first major move in the North American tissue sector since 2001 when they acquired some of Georgia-Pacific’s assets, and the small Encore Paper’s mill in upstate New York.

### SELECT NORTH AMERICAN TISSUE M&A ACTIVITY

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<tr>
<th>Acquirer</th>
<th>Target</th>
<th>Segment / Assets</th>
<th>Transaction Value (MM USD)</th>
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<td>513</td>
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<td>Atlas</td>
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<td>Fabrca de Papel San Francisco</td>
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Italian tissue producer Sofidel first entered the North American market in 2012 through the acquisition of retail and AfH producer Cellynne Paper in Florida. Sofidel announced new plans for expansion in the US with the acquisition of two converting plants from Green Bay Converting (GBC) in November 2015. The price for the operations in Hattiesburg, MS and Green Bay, WI was not disclosed, but Sofidel has already announced a $120 million investment at the Hattiesburg location. This brings Sofidel’s US operations to a total of one two-PM integrated mill and four additional converting facilities. Sofidel also announced in November plans to invest over $300 million over three years, including a new integrated mill in Circleville, OH to be operational in 2017.

Both SCA’s and Sofidel’s moves highlight key aspects of the North American tissue market that make it attractive to foreign producers. North America represents the biggest AfH market in the world with stable growth. While SCA did make moves in 2012 and 2013 in Europe and Asia, respectively, the European market has become bleak in terms of growth prospects and the Asian market has become riskier. SCA’s acquisition of Wausau increases its market share capacity by 6% in a market segment that is expected to surpass 3 million tonnes in terms of demand.

Sofidel is primed to take advantage of growing AfH demand as well as increases in Private Label retail demand. Private Label penetration is lower in North America than in Europe, but its share of demand is growing. Driving that growth are millennials, who are much less brand loyal when it comes to tissue. Sofidel, which has been serving European retailers Private Label needs for over 30 years, can use its experience to capture growth and become an even bigger tissue player in North America.

While European players have been noticeably active in North American tissue M&A, Latin American and Asian producers have been conspicuously absent. We know of Chinese producer Shandong Tranlin’s plans to produce straw-based tissue products in the US through its subsidiary Tranlin. Hong Kong-based International Grand Investment, owner of Woodland Pulp in Maine, has recently started up two new PMs.

But aside from these greenfield projects can we expect some of the top global tissue producers that do not have any North American assets to come looking with their wallets open, ready to buy their way in through M&A? Will Asia Pulp and Paper expand beyond their affiliate converting companies Mercury and Solaris? Could CMPC set its sights on North America?

Private equity players have been noticeably limited as participants among North American tissue M&A activities. Most recently, Arbor Investments acquired Dunn Paper from Wingate Partners (which had purchased five specialty tissue and machine glazed paper mills from Clearwater Paper in early 2015). Atlas Holdings, owner of Soundview Paper, purchased Vermont based Putney Paper in January 2013. Other than these transactions, PE players have been quiet as buyers. As sellers, Peak Rock Capital sold Atlas Paper, not to be confused with Atlas Holdings, to Resolute Forest Products in November 2015, but more on that later.

The North American tissue market, with its large retail and AfH segments, stable growth and low Private Label penetration, will continue to be attractive in the near future. It would not be surprising to see additional foreign producers or more private equity players take advantage of this attractiveness.
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WHAT TYPES OF ASSETS ARE INVOLVED IN RECENT TISSUE M&A?

SCA’s acquisition involved the AfH tissue market and included both mills and converting assets. Sofidel’s acquisition involved converting assets producing both retail and AfH tissue. Beyond these two acquisitions, nearly all other recent M&A activity has focused on mill and converting assets for the AfH and Private Label retail tissue segments. Converting assets are being purchased by both tissue producers looking to increase integrated operations and independent converters looking to increase their own capacity for finished products.

Georgia-Pacific (G-P) purchased SPG Holdings in June of 2014. SPG is comprised of one mill, Augusta Select Tissue in Georgia, and converting facilities in Mississippi and Wisconsin. The two PMs at the site are relatively new assets, started in 2007 and 2012. Though the mill only adds around 65,000 mt/a of capacity to G-P’s system, SPG has a decade of history serving the quick service industry, which fits in well with GP’s AfH business. What looked like an incremental capacity addition — roughly 2% of North American AfH tissue capacity — was also an important customer base acquisition. Financial details were not disclosed.

In an effort to expand its presence in the AfH segment, Kruger Products spent nearly $24 million in June 2014 to acquire the converting assets of Metro Paper Industries (MPI). Kruger gained two converting facilities in Trenton, ON, and Scarborough, ON, as well as MPI’s entire North American AfH customer base. MPI makes bath, towel, facial and napkin products for both retail and AfH markets. Most recently, Kruger purchased PM8 from the shuttered Lincoln Paper & Tissue mill. Kruger will be moving the PM from Maine to its Crabtree, QC mill, where it will mainly produce AfH tissue.

Private Label retail and AfH tissue producer Orchids Paper spent nearly $37 million ($20 million in shares of common stock, $16.7 million cash) to enter a “strategic alliance” with Mexican producer Fabrica de Papel San Francisco. The alliance was first announced in May 2014. The partnership also gives Orchids Fabrica’s US business as well as better access to the Mexican market. Orchids will be able to use around 18,000 mt/a of Fabrica’s capacity. Fabrica will produce the products at its Mexicali mill, which started operating the world’s first NTT tissue line in 2013.

NPS Corporation, a Wisconsin-based converter of AfH bath and towel products, doubled in size in 2014 with the acquisition of National Tissue Company (NTC), a producer of bath, towel and napkin products. NTC’s operations in Cudahy, WI, and King, NC, fit in nicely with NPS, which also has an affiliate company, Blue Ridge Tissue, in Patterson, NC. NPS further expanded in April 2015 with the acquisition of Celtic Paper. Celtic’s foodservice products match NPS’ current offerings and also add items such as deli and pan liners to the NPS portfolio.

As mentioned previously, Private Label retail is gaining share from branded products. AfH tissue is much less brand-oriented and is a more forgiving product in terms of quality. AfH could be considered the least “protected” in terms of competition. More tissue M&A activity involving these segments can be expected.

WHERE ARE ASSETS INVOLVED IN RECENT TISSUE M&A LOCATED?

The acquisitions mentioned by Kruger and Orchids emphasize the importance of where tissue M&A transactions are taking place. The two Metro Paper converting plants purchased by Kruger are close to Canada’s major population centers as well as Kruger’s tissue mills. Increasing integration and creating more efficient transportation / logistics networks increases profitability. Orchids, based in Pryor, OK, entered an alliance with Fabrica de Papel that allows them to better serve the western United States. Given the low number of tissue mills in the western US, that market has traditionally been underserved and undersupplied. Orchids’ deal presents a strong opportunity to serve the West.

WHY ARE CERTAIN COMPANIES GETTING INVOLVED IN TISSUE M&A?

In order to answer why certain companies are getting involved in tissue M&A, we must turn our attention towards printing and writing and newsprint markets. Producers exposed to these declining markets are entering the North American tissue market in search of new opportunities for...
revenue. With bleak outlooks for their current grades, they must take action. Two producers did exactly that towards the end of 2015.

The newest comer to the North American tissue market is Resolute Forest Products. Resolute announced its entry into the North American tissue market in June 2015 making known its plans for a retail, premium, private label tissue machine at its Tennessee facility. The machine is anticipated to go online in Q1 2017.

Resolute sped up its entry with the announcement of its acquisition of Atlas Paper in November 2015, immediately adding three tissue machines, 14 converting lines and a recycling facility to its portfolio. At a transaction price of $156 million, Atlas comes with retail and AfH bath, tissue and towel products. Most important of all, Resolute gains an immediate customer base for a product in which it has no experience. With the former Atlas assets in Florida and a future mill and converting facility in Tennessee, Resolute has set up a footprint in the US Southeast to serve both retail and AfH markets. The move also allows Resolute to further integrate its own pulp. The company that once aspired to be the biggest newsprint producer is not anticipated to be a wallflower in tissue.

In December 2015, Catalyst announced it will convert its uncoated mechanical PM11 at its Powell River mill to begin producing a towel product. The first towel is expected in November 2016. If successful, could Catalyst look to convert additional assets, or try to acquire others?

With two major graphic paper producers entering the tissue market, others could certainly follow. Will additional assets be converted from declining printing and writing grades to tissue? The task is far from easy, with technical and commercial knowledge both crucial to success.

**FUTURE TARGETS? FUTURE CONSOLIDATION? INDUSTRY REACTION?**

Looking at the who, what, where and why of tissue M&A activity has brought out certain themes and raises other questions:

- European-based producers are active, but where are the other global producers and the private equity firms?
- The AfH and private label retail markets have seen a lot of activity, but could a major branded acquisition be on the horizon?
- Players are strategically buying assets that best allow them to serve their customers. Where will the next target be and who will be buying?
- Declining markets are driving P&W and newsprint players towards tissue. Who’s next?

Converting assets are being purchased by both tissue producers looking to increase integrated operations and independent converters looking to increase their own capacity for finished products.

Kruger and Orchids are two examples of mid-tier and smaller North American producers making incremental moves. SCA’s acquisition of Wausau was enough to alter AfH concentration by 6% and total tissue industry by ~2%. Future jockeying for position in the middle between players such as Cascades, SCA, Clearwater, Kruger, First Quality, etc., can be expected. Meanwhile, Georgia-Pacific, Kimberly-Clark and Procter & Gamble sit firmly at the top of the market in terms of both share and capacity.

With roughly 60% of total tissue capacity under the control of three producers, are future dramatic shifts in market share possible? A scenario in which another producer breaks into double digits in market share is difficult to imagine. Unless one of the top three producers was to divest assets, a merger or acquisition by players in the middle appears to be the only way. A combination of two or more middle players would certainly alter the landscape. Could SCA, which participates in retail tissue everywhere but North America, make another move? On the contrary, if too many smaller players start acquiring assets, such as SCA with Wausau and Resolute with Atlas, the top three could respond by entering the fray.

*Note: This story was first published in “Tissue World Focus – New Orleans March 2016*
Focused Growth

SCA has proposed a split of the company into two independent groups: forest products and hygiene, and the strategy presents interesting development and restructuring opportunities for both parts.

By Urban Lundberg, Senior Consultant, Fisher International

SCA announced in late August the intention to split its hygiene operations and forest products operations into two separate independent listed companies subject to shareholder approval in 2017.

The demerger will create two independent groups: the continuing forest products business that will keep the name SCA (approximately 15% of net sales in 2015) including Printing & Writing, Packaging, Market Pulp, solid wood products and renewable energy, and the much larger yet-to-be-renamed hygiene business of Personal Care products (30%) and Tissue (55%).

The idea for a split is not new and was already strongly argued for during the 1990’s by one of the main shareholders as a solution to overcome the relatively low value of SCA shares at the time. The belief was that the capital market would view the growing hygiene part as a fast-moving-consumer-goods (“FMCG”) company with a traditionally higher valuation rather than as a forestry group. In addition, SCA’s huge forest land ownership of 2.6 million hectares, about 2.0 million hectares of which is productive, was believed to be an undervalued asset.

So, will the proposed split, now 20 years later, deliver on its early promises? What are some of the potential future scenarios of the demerged companies?

THE “NEW SCA” – BACK TO ITS ROOTS

The remainder of SCA, after the spinoff of the hygiene business will, in many aspects, be a “back-to-its-roots” move — returning the company to its origin. The new head-office will be in Sundsvall in northern Sweden (where the company was founded) and close to its forest holdings, saw mills, pulp, and paper mills.

The “New SCA’s” production of pulp and paper will be split between four product segments: Market Pulp, Packaging, Printing & Writing, and Newsprint in four mills as shown in Figures 1 and 2.
All mills are Sweden-based, integrated and benefit strongly from wood supplied by the company’s own forests. However, each of the new divisions will be relatively small by European standards and will need development to secure their future.

The Market Pulp business at the Östrand mill will, by 2018, double its size from today’s 425,000 MT (metric tons) to 950,000 thanks to an investment decision made in 2015. This will make SCA one of the world’s leading NBSK producers.

Its Packaging business at the Munksund and Obbola sites is focused on linerboard. The mills are strong and competitive but they lack forward converting integration. The sites were excluded from the 2012 divesture of SCA Packaging to DS Smith.

The Newsprint business has only a 3% capacity share of total European Newsprint. The Östrand site is relatively competitive as shown in the viability benchmark curve for all European newsprint mills and is, therefore, likely not a site with short term risk for closure despite the declining newsprint market (Figure 3). FisherSolve™ Viability Benchmarking, is a predictive tool that uses eight different parameters to rank the economic health and competitiveness of mills and machines and can provide robust insights that help to identify assets that are either at risk or well-positioned for investments.

The Printing & Writing business is similarly positioned with a mere 7% capacity share of the European market but with Ortviken being a relatively competitive site as shown in Figure 4. Both the Printing & Writing and Newsprint business lack the necessary size for long term stability and need some type of structural change.

Given the diverse product mix of SCA, it is unlikely that there will be any potential partner with a perfect strategic fit for the total portfolio. Rather, a number of potential partners interested in separate entities within the portfolio is the more plausible scenario. One such potential partner often mentioned is Holmen, mainly because of the ownership structure and big forest holdings in both companies.

More bluntly, there appears to be little synergy between the remaining businesses. One might well expect the company to spin off one or more of its parts.

“SCA HYGIENE” – A GLOBAL PLAYER ON AN EXPANSION PATH

The new “SCA Hygiene,” a final name still to be determined, will become the second largest tissue producer in the world after Kimberly-Clark (“K-C”). K-C and “SCA

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Figure 1

“New SCA” Capacity Share

![Image](source: FisherSolve © 2016 Fisher International, Inc.)

Figure 2

“New SCA” Production Capacity by Site

![Image](source: FisherSolve © 2016 Fisher International, Inc.)

Figure 3

Viability Index Curve Newsprint, Europe

![Image](source: FisherSolve © 2016 Fisher International, Inc.)
Hygiene” are the only tissue producers with a global presence as shown in Figure 5. SCA’s engagement in Asia is secured through their majority ownership of Vinda, China.

The majority of SCA’s current business is in Europe. Latin America and North America are two regions offering interesting growth opportunities for the company. It is worthwhile to mention that all SCA’s current North American business is in the “Away-from-Home” market (commercial/institutional). The fast growing Retail Brand segment may present an opening for an entry into the larger Consumer Tissue market. SCA could leverage their extensive European retail brand experience.

A comparison of the average size and technical age for the leading tissue producers reveals that “SCA Hygiene” has relatively small sites with an aging fleet — in average, producing approximately 84,000 MT with an average technical age of 23 years (Figure 6). This profile is similar to that of K-C. By contrast, the average Asia Pulp and Paper (“APP”) site is very large with 250,000 MT, and less than 14 years in technical age. Georgia-Pacific (“G-P”) on the other hand has large sites, averaging 210,000 MT, but the oldest assets with an average technical age of 34 years.

SCA recently announced the closure of TM1 at their Hondouville site in France. FisherSolve Viability Benchmarking, confirms TM1 in Hondouville to be one of the higher-risk SCA machines (Figure 7). This machine closure will likely be followed by more closures as SCA continues to upgrade and modernize their assets. As Figure 8 reveals, only six out of a total of 82 SCA operating tissue machines fall in the advanced technology category (TAD, NTT etc.).

WE HAVEN’T SEEN ALL YET…

The proposed split of SCA, by many viewed as long overdue, presents interesting development and restructuring opportunities for both parts. “SCA Hygiene” is likely to continue its international expansion driven by acquisitions and organic growth.

The more traditional forest-based business of SCA will require a number of structural changes to fully realize its dormant enterprise value. Chief among the alternatives may be divestitures of parts or even all of the four parts. Current SCA shareholders will get pro-rata ownership in each new entity. Foreign shareholders currently hold about 65% of the company. Since their attraction is likely to be greater for the hygiene part of the business, there could be interesting opportunities for divesture deals of the traditional parts of the business promoted by shareholders who would like to get their capital back.
Will the proposed split create value? It most certainly will. The hygiene part of the business will be free to pursue growth in a global market of which it already has a high share. It will do so in a growth environment, since tissue demand is and will continue to grow worldwide. Tissue and hygiene product businesses operate very differently from other parts of the forest products industry. Management can focus on tasks like brand building and capital investment.

By contrast, the traditional part of SCA can focus on a very different set of challenges. Among them will be how to capitalize on smaller, commoditized businesses in low-growth or shrinking markets. Management will think about disposal options or perhaps limited M&A. Opportunities for the business will be limited more to Europe or even just parts of it.

Since management teams can’t be expected to do everything at once — for example, to grow globally and shrink locally all at the same time — and to be good at running many diverse types of businesses simultaneously, the split, should it happen, would give both businesses a much-improved chance of realizing their full potential.

Urban Lundberg is a Senior Consultant at Fisher International (www.fisheri.com). He can be reached at: ulundberg@fisheri.com.
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Scientific Work Shows How Corrugated Packaging Stops Bacteria

New scientific work explains why corrugated packaging outperforms returnable plastic containers (RPCs) when it comes to micro-biological contamination.

The work, conducted by Professor Rosalba Lanciotti and her research team at the University of Bologna’s Department of Agricultural and Food Sciences and published in *Frontiers in Microbiology*, follows a research study published in late-June that showed corrugated containers keep fruit and vegetables fresh up to three days longer than RPCs.

Professor Lanciotti’s work revealed that microorganisms died much quicker when placed on corrugated surfaces where they get trapped in the paper fibers and die due to a lack of water and nutrients. Conversely, the research showed that microorganisms survive longer on plastic surfaces.

“We’re pleased to see the University of Bologna’s research published in a scientific journal. It reinforces our industry’s commitment to use science in seeking facts about the performance of corrugated packaging,” said Dennis Colley, President and CEO of the U.S.-based Fibre Box Association (FBA). “This latest work is important because it explains why corrugated stops bacteria. The ability of corrugated packaging to trap microorganisms and pull them away from fruits and vegetables is a clear sign that produce will arrive fresher and last longer packed in corrugated boxes.”

**CORRUGATED VS. PLASTIC SURFACES**

The study looked at pathogenic microorganisms that could cause foodborne illness and spoiling microorganisms that could affect shelf-life and the quality of fruit. After both corrugated and plastic surfaces were inoculated, the cell loads of the microorganisms were checked over time.

Scanning electron microscope (SEM) images showed that after a few hours the superficial contamination on corrugated surfaces was much lower than on plastic materials. Corrugated surfaces were able to entrap the microbial cells within their fibers. Once the cells were trapped, researchers observed how they underwent lysis: their cell walls and membrane ruptured, the cytoplasm leaked, and the cell disintegrated. This phenomenon occurred in all the studied target microorganisms, both pathogenic and spoilage.

By contrast, the SEM images of plastic showed smooth, continuous surfaces unable to trap microorganisms. In addition, the presence of tiny cuts and scratches on the RPC surface can aid the proliferation of microorganisms. Damaged or worn plastic becomes difficult to clean and can easily fill with organic matter that microbial cells feed on to survive and grow.

Tests for both packaging materials were conducted under the same environmental and correct storage conditions.

Professor Lanciotti’s recent work and the study published earlier this summer were initiated by the European Federation of Corrugated Board Manufacturers (FEFCO) (www.fefco.org).

Fibre Box Association (www.fibrebox.org) is a non-profit trade association representing North American manufacturers of corrugated packaging.
Tak Investments, owner of tissue mills in Oconto Falls, Wisconsin and Franklin, Virginia, on Sept. 27 announced a $40 million expansion project at its Franklin facility — ST Tissue.

The expansion project includes the addition of a 50,000 ton per year dry crepe machine, alongside its existing 70,000-ton-per-year wet crepe machine.

The company also is adding some downstream equipment that will allow it to provide its customers with outsourced toweling finished goods.

“When we first announced our acquisition of the site in Franklin, we envisioned a world class AFH tissue facility, with state-of-the-art recycling capability, the ability to provide a broad range of sustainable products, an experienced staff, and many customers within a logical freight radius that were experiencing high growth,” said Sahil Tak, Vice President of ST Tissue.

The ST Tissue Franklin mill produces 100% recycled, high post-consumer content napkin and towel for the Away From Home (AFH) market. Its products have received a number of third party environmental certifications for its responsible and sustainable manufacturing processes. While the mill currently produces kraft napkin and towel exclusively, the plant expansion will enable it to also produce recycled bleached, along with virgin, napkin and towel for its customers.

ST Tissue said that the “new” machine will be reconstructed from an existing uncoated free sheet machine, which was shut down by its previous owner in 2010, into a dry crepe tissue machine. The machine will be focused on making napkin product for ST Tissue’s customers and will draw its fiber from its recycled fiber plant.

Speaking at an announcement ceremony, Gov. Terry McAuliffe said, “In 2013, ST Tissue resurrected a former paper mill and converted it into a leading paper products manufacturing facility that continues to grow and thrive in Isle of Wight County,” said McAuliffe, speaking at the event.

“ST Tissue’s facility expansion will also include upgrading the existing recycled fiber plant and the addition of towel converting capacity.

The new project will be supported by local and state of Virginia incentives.

ST Tissue anticipates the project will be completed in phases during the next 18 months. The existing tissue machine will continue to run normally.

ST Tissue (www.stpaperllc.com) produces a wide range of products, including bleached and kraft paper, and napkin, paper towels, and kitchen roll towels for the Away-from-Home tissue market.
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