

PPI Pulp & Paper Week

PAPER, PACKAGING AND FIBER MARKET NEWS AND PRICES FOR NORTH AMERICA

Global demand slowdown takes toll on North American pulp and paper industry's financial performance in 3Q

Strategies rolled out by North America's pulp and paper firms in recent years to improve sector-specific competitiveness proved of little avail against the inexorable macro-economic forces of 2019's third quarter -- and with demand and pricing deteriorating further -- even captains of industry struggled to discern a profitable path through the global economic retrenchment.

With pulp, white paper and packaging markets impacted both at home and abroad, the industry's commercial downturn affected even well-diversified billion-dollar revenue generators like *»» continued on page 16*

US box shipments rise sequentially in Oct.; board stock drops, op rate rises, KLB export prices settle

US unbleached kraft linerboard prices appeared to be holding in three of four main export destinations, contacts said this week. The only region where pricing appeared to decline, sequentially, was southern Europe (Italy and Spain). Board sold to Mexico, Central and South America, and China appeared to be unchanged.

Fastmarkets RISI's *PPI Pulp & Paper Week* reports prices for domestic and export markets for US linerboard and corrugating medium next week on Nov. 22.

October US box shipments improved sequentially, while being down slightly on a year-over-year basis. Actual shipments *»» continued on page 13*

US NBSK holds for first time this year, market eyes an 'uncertain' 2020; BHK flat to down

Price erosion in North American pulp markets has slowed after posting declines across key grades for 10 months straight, and benchmark northern bleached softwood kraft (NBSK) held flat for the first time this year, according to *PPI Pulp & Paper Week* polling. However, hardwood kraft grades were broadly mixed amid continued high inventories and disagreements between buyers and sellers on where prices would go.

US NBSK preliminary November effective list prices held unchanged at \$1,115/tonne after Canadian producers pulled back temporary market allowances in regular contract business, and *»» continued on page 6*

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demand
drives
dissolving
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Tissue

Irving starts up new TAD in Macon; plans \$400 million to add a second one in early 2022

Irving Tissue opened its new \$470 million 82,500 tons/yr through-air-dried tissue paper machine and complex in Macon, GA, and at the same time said it would spend \$400 million more to add a second 82,500 tons/yr TAD by January 2022 at the complex.

When both machines are operating, the company expects to be producing 30 million cases/yr of tissue products at the complex.

Irving Tissue pres Robert Irving celebrated the opening of the first PM and announced the second project on Nov. 13.

"It is a great day for Macon, the state of Georgia and Irving Tissue. We're pleased to be expanding our business in the United States. We knew that this plant's strategic location would allow us to reach key markets and help to drive our growth. Our customers' enthusiastic support of its state-of-the-art technology has meant that our new plant is already at capacity, so we're thrilled to announce the second phase of this expansion project," said Irving. "This exciting expansion is possible because of our valued customers and the commitment of our employees and suppliers to deliver the best value and quality."

The complex in Macon employs 200 workers who produce ultra-premium quality household products including bath tissue and paper towels.

"We've already ordered an additional Thru Air Dry machine that will be a duplicate of what we already have in our Macon plant," Irving said.

"Today is a great day for Macon and Middle Georgia," said Macon-Bibb County Industrial Authority chmn Robby Fountain, in the company's release. "Irving Tissue's additional investment totaling nearly \$1 billion since 2017 in our community is another testament to why Macon-Bibb County is a great place to do business."

The first phase of the expansion involved 1.5 million person hours of work for contractors during construction with more than 1,000 people onsite at peak.

Phase two of the project will begin immediately and is to involve about one million person hours of work for contractors.

Construction of the first Macon plant doubled Irving Tissue's annual TAD capacity increasing it by 82,500 tons, which is the equivalent of 15 million cases/yr of tissue products. Phase two is to increase the converted capacity total from Macon to 30 million cases/yr.

--by grudder@fastmarkets.com

Newsprint

Resolute indefinitely shuts already idle Augusta, GA, mill

Resolute Forest Products (RFP) will "indefinitely idle" its already quiet 214,000 tonnes/yr Augusta, GA, newsprint plant,

the company confirmed after a local press report Nov. 14.

The Augusta mill has capacity of about 232,200 tons/yr on one machine, accounting for about 14% of the company's total. It supplies newsprint for newspaper publishers and commercial printers across the Southeastern USA and exports about 20% of its production to customers in Central and South America.

The plant employs 159 people. Employees had been off the job since early October when the plant was temporarily idled to offset declining demand for newsprint paper. The mill underwent intermittent shutdowns earlier in 2019.

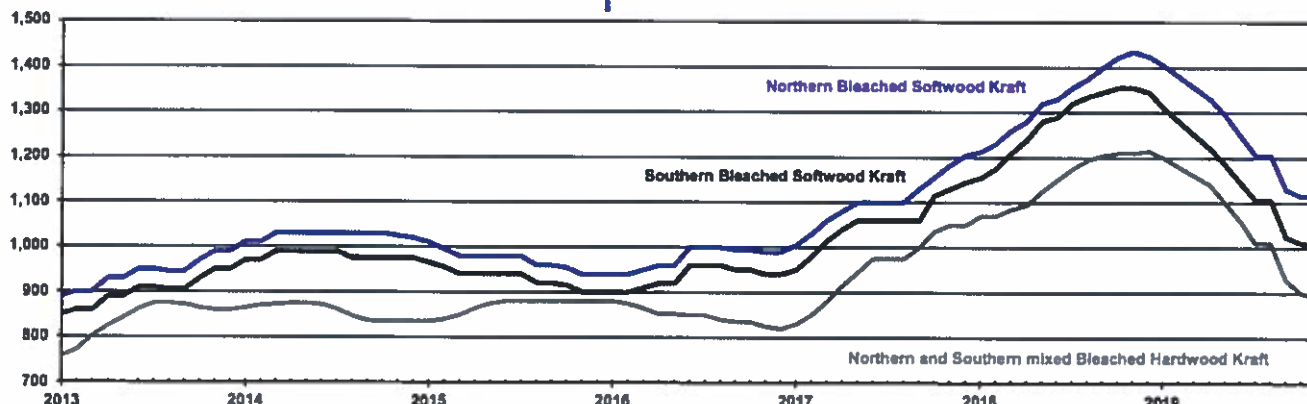
Company spokeswoman Debbie Johnston said the likelihood the Augusta plant would be restarted anytime soon is slim, given the newsprint sector's "continued, challenging market conditions," the *Augusta Chronicle* reported.

RFP currently operates six newsprint mills in the USA and Canada – Amos, Baie-Comeau, Clermont, and Gatineau, QC; Grenada, MS; and Thunder Bay, ON – which combined can make 1.7 million tonnes/yr of newsprint.

• **New Media Investment Group** and **Gannett** stockholders approved the previously announced acquisition of Gannett by New Media for a combination of cash and stock. The \$1.4 billion deal will create the leading US print and digital news organization. New Media and Gannett expect to complete the Merger on Nov. 19, 2019.

--by rmercante@fastmarkets.com

PRICE WATCH: Market Pulp



Effective list price before regular volume and customer discounts. US\$/metric tonne unless otherwise noted.

	Current months				Year-to-year	
	Nov. 2019 Preliminary ¹	Oct. 2019	Sep. 2019	Q3 2019	Nov. 2018	% chg.
US (DELIVERED IN EAST)						
Bleached softwood kraft						
Northern (Canadian)	1,115	1,115	1,135	1,170	1,435	-22.3
Southern (US)	1,000 - 1,010	1,010	1,025	1,065	1,355	-25.8
Bleached hardwood kraft						
Northern and southern mixed (Canadian/US) ²	880 - 900	900	930	970	1,215	-26.7
Eucalyptus	875 - 905	905	940	980	1,235	-27.9
Specialty grades						
Unbleached softwood kraft (Canadian/US)	1,045	1,045	1,065	1,100	1,375	-24.0
Fluff (US southern kraft, untreated softwood rolls)	1,100 - 1,110	1,110	1,130	1,163	1,365	-19.0
Deinked (US air-dried and wet-lap, 100% post-consumer for printing/writing)	765 - 775	775	795	812	945	-18.5
Spot Markets³						
Northern Bleached Softwood Kraft	600 - 640	590 - 630	580 - 620	593	920	-32.6
Southern Bleached Softwood Kraft	505 - 535	505 - 535	500 - 530	532	790	-34.2
Northern and Southern Bleached Hardwood Kraft	470 - 510	470 - 510	470 - 510	517	790	-38.0
EUROPE (CIF)						
Bleached softwood kraft						
Northern (Canadian/Nordic)	820 - 830	820 - 830	820 - 830	860	1,200	-31.3
Southern (US)	780 - 790	780 - 790	780 - 790	818	1,160	-32.3
Bleached hardwood kraft						
Northern mixed (Canadian/US)	640 - 660	640 - 660	660	710	980	-33.7
Southern mixed (US)	630 - 650	630 - 650	650	700	970	-34.0
Specialty Grades						
Fluff (US southern kraft, untreated softwood rolls)	1,110	1,110	1,130	1,163	1,365	-18.7
ASIA (CIF)						
JAPAN						
Bleached softwood kraft						
Northern (Canadian)	670 - 690	670 - 690	660 - 670	668	900	-24.4
Southern (US)	610 - 620	610 - 620	610 - 620	635	900	-31.7
Bleached hardwood kraft						
Northern and southern mixed (Canadian/US)	500 - 510	500 - 510	510 - 530	533	745	-32.2
KOREA						
Northern bleached softwood kraft	710	710	700	700	955	-25.7
CHINA						
Northern bleached softwood kraft	590 - 600	590 - 600	570 - 600	585	815	-27.0
Northern bleached softwood kraft - net ⁴	580 - 590	580 - 590	560 - 590	575	805	-27.3

SPECIFICATIONS

All prices are best estimates of list prices before regular volume and contract discounts and are composite prices as opposed to median or average prices. Actual transaction prices may vary. US prices include normal freight allowance for delivery to consuming paper mills. Export prices are CIF main European ports. Normal terms include a 1.5% discount for cash payment or 60 days. Prices may not reflect same existing contract discounts off list prices still in effect: in North America, typically 30-40%; in Europe, 22-30%; in Japan, 3-9%; in Korea, 13-16%; in China, 1-3% (from Canadian producers). BHK pricing varies according to species used for the pulp.

DISCLAIMER

While the information contained in this index has been obtained from sources believed to be reliable, Fastmarkets RISI does not warrant or guarantee the accuracy and completeness of the information.

NOTES

1. Preliminary and final prices.

US - Mid-month PPW effective list prices shown are preliminary prices. End-of-month final prices published in PPW and World Pulp Monthly supersede these preliminary prices. Full details at: www.risi.com/PulpPriceChanges

Europe - Originally published in PPI Europe. Pending indicates prices are not available at the time of publication. Final prices are published in the next Price Watch issue. The exception is European fluff price assessments, which follow the same publishing schedule as US pulp price assessments and are formally tied to the US fluff price assessments.

Asia - Final prices are reported at the end of the month.

2. Effective January 2016, NBSK and SBHK were merged into a single assessment. See www.risi.com/PulpPriceChanges for details.

3. Spot prices are mid-point weighted averages for biweekly orders up to the publication date. Prices are net delivered with 0% discounts.

4. As of April 2019, net price assessments for NBSK delivered China were added to the PPW pulp price watch. Effective list price assessments will be discontinued in October 2019.

r = revised

Recovered paper

Depressed pricing pushes down recycling revenues for Waste Management, Republic

Depressed recycled commodities pricing, especially recovered paper, played a major role in the recycling revenue declines among the top US waste and recycling companies in third quarter 2019, and it is these companies' restructuring of municipal contracts, and investing in technologies and acquisitions that they say will help to offset these headwinds.

Waste Management (WM), the largest US recovered paper processing and trading company, reported \$245 million in recycling revenue for the third quarter, down 27% from third-quarter 2018. At \$38/ton, WM's blended

average commodity price in the third quarter declined 40% year over year. This price was \$65/ton at the start of the year, according to a Seeking Alpha transcript of WM's earnings call. WM officials said during the call that "continued depressed prices" are expected in the fourth quarter.

The \$38/ton represents a "further 8% decline from the 10-year low reached in the second quarter, which led to an \$86 million decline in our recycling revenue," WM COO John Morris said.

"Despite this precipitous drop," Morris said, "the steps we're taking to improve the recycling business held (WM's) year-over-year decline to operating EBITDA to \$7 million and EPS decline to about \$0.01. In past years, an \$86 million decline in revenue

would have represented about a \$0.08 to \$0.10 decline in EPS."

"Mitigating this larger impact demonstrates the success we're having in restructuring contracts and assessing fees for contamination," he added.

Changes to municipal recycling contracts was one "improvement" cited by Republic Services, the second largest US garbage hauling and recycling company, in its third-quarter earnings report. Republic's recycling revenue was \$68.6 million in the quarter, down 10%.

Republic confirmed price increases for 35% of its municipal recycling contracts. WM said it has worked through about half of its municipal and franchise contracts.

US recovered paper exports September 2019

(tonnes)

Grade	September 2019		% chg. month ago	Jan.-/Sept. 2019		% chg. year ago
	\$	Tonnes		\$	Tonnes	
Corrugated	\$101,813,243	737,926	-14.2%	\$1,129,341,047	7,504,477	-7.3%
Mixed	24,955,913	176,707	-13.6	292,993,036	1,881,379	-6.1
Pulp	18,753,123	74,019	-12.1	192,504,520	823,592	0.5
substitutes						
News	31,773,447	173,026	-2.0	346,779,088	1,824,761	-21.1
Deinking high grades	19,456,895	84,674	-22.4	200,090,688	807,417	8.3
Total	\$196,722,621	1,246,352	-13.1%	\$2,161,708,379	12,841,626	-8.1%
Major Destinations						
Sep. 2019	News	Deinking	Pulp	Corrugated	Mixed	Total
			Substitutes			
China/Hong Kong	118,570	71	240	316,739	8,420	444,040
India	5,122	6,848	38,877	83,049	85,082	218,978
Mexico	8,022	53,606	9,686	7,188	5,685	84,187
South Korea	15,284	1,805	680	32,676	13,652	64,097
Canada	7,795	6,324	4,610	24,433	19,795	62,957
Thailand	2,029	918	0	23,898	5,712	32,557
Indonesia	5,751	1,430	410	78,216	2,541	88,348
Taiwan	2,520	0	0	67,727	5,962	76,209
Italy	204	2,715	920	1,049	608	5,496
Vietnam	2,870	0	0	55,528	2,799	61,197
Total	168,167	73,717	55,423	690,503	150,256	1,138,066

n.a.=not available. Source: US Dept of Commerce, Bureau of Census.

Like WM, Republic also saw a decline in its average recycled commodity price, although Republic's was nearly twice that of WM's at \$72/ton. Republic Services' third-quarter recycled commodity price slipped \$6/ton from second quarter and fell 32% compared with its average level in third-quarter 2018. Republic estimated this price to weaken again, to \$68/ton, in October.

Pricing for recovered fiber in the US is off considerably for every grade from a year ago as demand has fallen on both the domestic and export markets. Old corrugated container (OCC) pricing dropped to a national average of \$22/ton at the FOB seller's dock in November, potentially the lowest ever in a month, based on Fastmarkets RISI's *PPI Pulp & Paper Week* pricing survey. The decline is not only for OCC as other US recovered fiber grades have dropped to levels not seen since the Great Recession in 2008. OCC pricing this month is off 69% from the same month in 2018. In November 2008, the bulk grade averaged \$30/ton. (*P&PW*, Nov. 8 p. 1).

'Transform recycling.' Yet, the US's two largest garbage hauling and recycling companies said in their earnings calls that they are changing their recycling businesses in ways that will help them to survive markets with low pricing. This includes rewriting contracts, switching to digital platforms for dispatching and logistics, investing in equipment and plants, as well as acquisitions.

"We continue to make progress transforming recycling into a more durable, economically sustainable business model. As a

result, next year, we expect our sensitivity to commodity prices to decrease," Republic Services pres Jon Vander Ark said.

WM CEO Jim Fish referred to its restructuring of fee-based contracts as well as investments in technology as steps the company is taking to "transform the recycling business." These moves, he said, "will insulate the business from commodity price swings and we're starting to see results."

As one example, Fish said WM saw a 320-basis point reduction in contamination rates at its single-stream material recovery facilities (MRFs) in the third quarter.

As another, Fish said that WM has tested material at its "MRF of the future" in Chicago where robotics and optical sorting technology are in full force.

"Encouraged by the results," Fish said these technologies will be used at other MRFs as well in addition to improving the screening process.

In Chicago, Fish said labor costs could be cut by 40%. (In Austin, Balcones Resources CEO Kerry Getter recently told *P&PW* that after the company spent \$6 million on robots and optical sorting at its MRF, it saved \$40,000/month in labor costs. Balcones has a 100% turnover rate on the sorting line with workers annually, Getter said.)

Fish said: "We continue to expect a meaningful operating cost savings from these advancements in technology, while also creating the best quality material for sale through positive sorting processes."

In 2018, Republic Services opened its first "next-generation positive-sort recycling facility" in Plano, TX. To date, Republic has seen in Plano about a 20% reduction in its total cost per ton.

"It's important to note, this improvement is net of the depreciation expense associated with the upfront capital investment," the company said.

In addition, acquisitions are at the forefront of Republic's focus. In the third quarter, the company spent \$275 million on acquisitions. This brings Republic's year-to-date acquisitions to \$490 million total, and CEO Don Slager said 2020 could be another year of strong acquisition growth.

Slager said: "So that's why we're so passionate about restructuring the business model for recycling, because over time, we're long on recycling and we want to be a major player in that space. But it has to have really attractive financial returns for us to continue to invest there, and we're seeing that absolutely in given markets over time."

"We like Canada. There's some great business up there," Slager said.

In Canada, Waste Connections reported recycling revenue, excluding acquisitions, was nearly \$13 million in the third quarter, down \$9.5 million, or 43%, year-over-year, and down 15% from in the second quarter.

• Contacts said that a company is working to open a **recycled pulp mill** in an old steel mill in Fairless Hills, PA, that would consume mixed paper and OCC, in partnership with China-based

Sunshine Paper, contacts told *P&PW* this week. While permits are still required, one contact said the existing infrastructure will help the process to be "fast-tracked." Another contact said "a significant amount of financing has been located." The contact added of such a facility during today's oversupply of mixed paper and OCC: "The market needs any consumer we can to relieve the surplus of OCC; we haven't seen a surplus in OCC in a long time."

--by mworkman@fastmarkets.com

US NBSK prices hold

»» continued from page 1

some producers that held low inventories pushed back against downward pressure. Some buyers, who have grown accustomed to month-over-month declines throughout 2019, kept up a fight, however.

While preliminary effective list prices held flat, individual levels continued to vary in a second straight month of widely spread deals on regular contract business. Those ranged from \$15-20/tonne increases at certain producers that tried to lift prices case-by-case, and decreases as large as \$20 at consumers who've been among the most hawkish at demanding price decreases throughout a 2019 marked by oversupply and the emergence of Scandinavian producers that saw their tonnes displaced in Europe and redirected output to the USA and China.

"We see flat prices. Earlier, the US spot price was \$100 below the net price for contract tonnes. Then China (and Europe)

bottomed, so I was surprised it went down \$20 last month," said a contact at a major NBSK producer on the sidelines of London Pulp Week, where the global industry embarked this week and buyers and sellers met face-to-face to negotiate new annual contracts for 2020.

Spot NBSK rises \$10. The source added that with spot prices moving up in two consecutive months, downwards pressure in contract business had eased back. US NBSK spot prices increased to \$600-640/tonne net delivered to the US East and Midwest, up \$10/tonne through Nov. 15, according to *PPI P&PW* polling. After levels bottomed in August, NBSK spot prices are now up a combined \$40/tonne.

Other bleached softwood kraft (BSK) prices were flat to down \$10. US southern bleached softwood kraft (SBSK) preliminary effective list prices were at \$1,000-1,010. Fluff pulp continued to price \$100/tonne higher than its paper-grade counterpart, at \$1,100-1,110.

US fluff and SBSK producers are taking market-related downtime to curb oversupply, and price erosion in emerging markets such as China, other Asian markets, and the Middle East/Africa (MENA) region has waned. However, some US buyers of Southern pine-based grades feel prices should continue dropping because market downtime suggests weak fundamentals while net prices offshore are lower.

"The SBSK downtime skews it. The market is still oversupplied... so there's downwards pressure. European demand is down

and there's uncertainty about the US/China trade war," said a US buyer contact.

While some contacts had expected ongoing steep price erosion in US fluff export prices to China because tariffs on US pulp imports are to rise from 5% to 10% on Dec. 15, price erosion has slowed or halted this month depending on producer, buyer, and volume, several market participants said during private meetings in London.

Fluff export prices to China have exceptionally broad ranges however, with most contacts reporting levels anywhere from \$530-590/tonne net CIF. Major US producers trended toward the top of the range, while midsized and offshore producers were lower. The latest fluff prices are down \$210/tonne on average year-to-date, according to *P&PW* data.

BHK flat to down \$30. US bleached hardwood kraft (BHK) preliminary effective list prices are flat to down \$30/tonne. Bleached eucalyptus kraft (BEK) declined to \$875-905, and North American-produced BHK to \$880-900, according to *P&PW* polling.

Global BEK producers' inventory overhang will likely take several months to ease, despite a 450,000 tonne inventory reduction at the world's largest producer Suzano during the third quarter. Port inventories in China, which declined in certain regions from sky-high levels earlier in the year, are still bloated.

China BHK: After many contacts believed BEK prices bottomed in China at \$450-460 net CIF in October, sources told *P&PW* that a new price hike could

soon get announced in the country (*P&PW*, Nov. 8, p. 1).

This week, Asia Symbol announced an increase of RMB 100/tonne (\$14/tonne) for bleached hardwood kraft (BHK) pulp orders in China, effective immediately, Fastmarkets RISI reported on Nov. 12. Signs of customers restocking BHK motivated the company to seek the hike, the report said, also noting that Chinese BHK markets were "rattled" by Suzano's disclosure last week that it has sold out all its BHK stocks at ports there. The Asia Symbol hike will test the local market's strength, and if successful could be a precursor to international hike attempts down the line, sources said.

London symposium. At the British Wood Pulp Association/Hawkins Wright symposium on Nov. 15, Hawkins Wright's Oliver Lansdell pointed out that the pulp price declines registered over the course of the year were in line with developments in other commodity prices and were a natural outcome of the global economic and trade slowdown.

"Those leveraged to China have been the most affected," Lansdell said. Demand is a major problem, and Lansdell noted consumer destocking in the second and third quarters totaled 1.2 million tonnes of pulp, with the bulk of that in China.

"Consumer destocking has depressed demand for market pulp relative to consumption," he said. And closer to home, he said that Europe "really is the sick man of the pulp world" in terms of demand at the moment.

Other reasons for caution moving into 2020 include non-integrated printing and writing (P&W) paper producers closing or converting capacity, meaning they will buy less market pulp, making it necessary for this pulp to find a home. Integrated P&W producers are also closing or converting capacity to packaging grades and so will consume less pulp, with some of them able to redirect this pulp to the market.

There is also the possibility that pulp producers who have run their lines at lower operating rates in 2019 could run full through 2020, lifting production. Also, a depressed dissolving pulp market could encourage swing capacity back to paper pulp. Finally, he said that it was possible that 2020 could begin with over one million tonnes of surplus stock in inventory.

--by bsmith@fastmarkets.com

Graphic papers

Verso to sell two paper mills to Pixelle for \$400M; names new CEO, Pres

Leading coated freesheet (CFS) paper producer in North America Verso on Nov. 12 announced the sale of two paper mills to Pixelle Specialty Solutions for \$400 million.

The transaction, which involves Verso's Androscoggin/Jay, ME, and Stevens Point, WI, specialty paper mills, is expected to be completed in the first quarter of 2020.

The Androscoggin mill makes 425,000 tons/yr of flexible packaging papers, release

liner base, specialty labels, kraft papers and linerboard.

The Stevens Point mill has capacity to make 210,000 tons/yr of coated flexible packaging papers, release liner base, thermal papers, and other specialty labels.

"Over the past two years, the board and management have worked diligently and tirelessly to assess a broad array of strategic options for the company, including potential mergers, business combinations for sales, mill closure, spin-offs and share buybacks," said Verso's co-chairman Gene Davis on a conference call with analysts held on Tuesday.

Verso earlier this year stated that it would be focusing on the growth of its specialty paper operations. Now, the company believes that prioritizing its graphic paper operations will allow it to be more resilient to market headwinds and provide it with greater flexibility, to take advantage of future opportunities as they arise, according to Davis.

As part of the deal involving the Androscoggin and Stevens Point mills, Verso and Pixelle also agreed to execute a pulp supply agreement. Pixelle will buy from Verso bleached hardwood kraft (BHK) pulp in either dry bales or wet lap for a term of four years, subject to an additional renewal option for another four years.

Verso produces BHK market pulp at two mills in Quinnesec, MI, and Wisconsin Rapids, WI.

Along with the Pixelle announcement, Verso said it has named its Sr VP of

Manufacturing Adam St. John as Chief Executive Officer.

Strategy change? Earlier this year, when Verso ceased production at its 450,000 tons/yr Luke, MD, mill, the company publicly stated that it would continue to decrease its dependence on graphic-related products, and grow its business in specialty and packaging papers and other products.

The Luke mill produced CFS premium, C1S paper, coated bleached label, and coated bleached packaging.

Last year, Verso converted Androscoggin's CM paper machine No. 3 to kraft linerboard with 200,000 tons/yr of capacity.

Now, with the sale of the Jay and Stevens Point mills, Verso will have over three-fourths of its revenue coming from graphic papers.

"I don't think we're shifting our view to improving the position of the paper mills. The offer we received was a very favorable transaction for the company... we will review the opportunities we have at the mills to reposition them into greater, cost-effective operations," Verso's former interim CEO Les Lederer noted.

Remaining mills. After the sale of the Jay and Stevens Point mills, Verso will still have four paper mills making almost 2 million tons/yr on seven machines of mostly graphic papers, as well as specialty and packaging.

Verso projects that after the transaction with Pixelle is completed, about 76% of its annual revenue will come from graphic papers, 15% from specialty, 6% from pulp and 3% from packaging papers.

"We will have four remaining mills that are well-positioned in the products they make. In addition to traditional graphic papers, the remaining business will include pulp sales, specialty papers and some packaging," said SVP and CFO Allen Campbell.

Among the remaining mills, Escanaba, MI, is the largest one, with an estimated capacity of 730,000 tons/yr of CFS, uncoated freesheet (UFS), coated mechanical (CM) and specialty and

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Verso paper mill assets after deal with Pixelle

(000 tons/yr)

Location	Capacity (000 tons/yr)	Grade	No. of PMs
Duluth, MN	270	SC	1
Escanaba, MI	730	CFS, UFS, CM, SIP	3
Quinnesec, MI	430	CFS	1
Wisconsin Rapids, WI	550	CFS, UFS	2
Total paper capacity	1,980		

Pixelle paper mill assets after deal with Verso

(000 tons/yr)

Location	Capacity (000 tons/yr)	Grade	No. of PMs
Jay, ME (Androscoggin mill)	425	LB, SIP	3
Stevens Point, WI	210	UFS, SIP	2
Chillicothe, OH	335	UFS	3
Spring Grove, PA	320	UFS, SIP	3
Port Townsend, WA	266	LB	1
Total paper capacity	1,622		

Source: Fastmarkets RISI, Verso, Pixelle.

Notes: SIP=specialty and industrial; LB=linerboard; SC=supercalendered; CFS=coated freesheet; UFS=uncoated freesheet; CM=coated mechanical.

industrial (SIP) paper, including kraft papers and coated one-side (C1S) labels.

The Wisconsin Rapids mill makes 550,000 tons/yr of CFS and UFS, as well as 135,000 tons/yr of BHK and softwood pulp.

At Quinnesec, Verso can make 430,000 tons/yr of CFS and 280,000 tons/yr of BHK pulp.

Finally at the Duluth mill, Verso has a current capacity of 270,000 tons/yr of supercalendered (SC) paper.

Lederer explained that Verso is converting a portion of the Duluth mill – about 40,000-44,000 tons/yr – into recycled containerboard and kraft bags.

"That project is well on its way to completion. It's expected that we will produce on that capital expenditure sometime in the first part of January," the executive stated.

More divestment to come?

Verso said that after the deal with Pixelle is completed, it will continue to "strategically optimize other assets and operations," and may consider selling other mills.

"We will continue to evaluate the remaining assets focusing on alternative markets, cost reduction, and other strategic options... If someone comes to the board and has an idea of a potential purchase, of course the board is going to consider that. But at this point, we're focusing on understanding what we can do to better with the remaining mills," said Lederer.

Pixelle position. After closing the transaction with Verso, Pixelle will be the largest specialty paper business in the USA, the company stated. Pixelle will have industry-leading positions in a broad range of products including high-speed inkjet, machine glazed (MG) and machine finished (MF) papers, release liner, thermal base paper,

trade book paper, carbonless, greaseproof, and C1S specialties.

Pixelle will operate four mills – the two Verso mills (Androscoggin and Stevens Point), the Chillicothe, OH, mill and the Spring Grove, PA, mill. Pixelle's paper capacity will be close to 1.8 million tons/yr including UFS, SIP and linerboard (LB).

Pixelle, owned by private investment firm Lindsay Goldberg, acquired the two Chillicothe and Spring Grove mills from Glatfelter late last year for \$360 million.

Lindsay Goldberg also operates the Port Townsend Paper mill in Washington with capacity of about 266,000 tons/yr of mostly linerboard and medium.

Pixelle also has a converting facility in Fremont, OH, and wood fiber sourcing operations in strategic wood baskets in Maine, Maryland, Ohio and West Virginia.

"We are excited about the opportunities that these mills present to us, and will fully analyze all of the capabilities of the mills after the closing of the transaction before making any long-term decisions," said Pixelle's Pres Tim Hess.

Lindsay Goldberg affiliate partner Steven Klinger said it was positioning Pixelle for the future.

"When we created Pixelle, we stated that we would leverage our differentiated, customized approach to manufacturing to help Pixelle build on its great reputation with customers and strengthen its positions in the specialty paper markets it serves," Klinger said.

New leadership. New CEO Adam St. John was also appointed as a member of Verso's board of directors. He has been SVP of manufacturing for all Verso mills and has been a long-standing member of the senior leadership team. Prior to joining the company, St. John served in a senior management capacity at Georgia-Pacific.

"With almost three decades of paper industry experience and more than a decade of experience with Verso, we are confident that Adam is the right choice to lead the Company consistent with our strategic focus," said Alan Carr, Co-Chairman of the Board.

Former interim CEO Les Lederer will continue to serve as a senior transaction advisor to the company.

Verso also named Michael A. Weinhold as President of the company effective immediately. He has been with Verso since 2006 and has held multiple senior leadership roles in sales, and most recently served as Verso's President of Graphic and Specialty Papers. Prior to joining Verso, Weinhold held management positions at International Paper.

Verso also announced that Nancy M. Taylor and Randy J. Nebel have been appointed as independent members of the board of directors.

Taylor served as President/CEO of Tredegar, a manufacturing company, from 2010 to 2015. Nebel served as exec VP of Integrated Packaging at KapStone Paper and Packaging in 2017-2018.

--by rmercante@fastmarkets.com

Boxboard

WestRock sales, volumes off in final quarter; targets replacing plastic packaging

WestRock's Consumer Packaging September quarter results echoed those of its two publicly-owned competitors, Graphic Packaging and Clearwater Paper, which earlier reported ongoing gains from passing through price increases from 2018, partly offset by persistent flat volumes.

The three companies also highlighted gains from replacing plastic packaging products with paperboard, yet still came in with flat to lower volumes for the quarter and year-to-date.

WestRock on Nov. 7 showed its fiscal fourth quarter Consumer Packaging sales were down 2.4% in the period ending Sept. 30 from a year ago to \$1.67 billion, with paperboard shipment volumes 5.5% lower to 939,900 tons.

The company's adjusted segment income rose 11.5% in the quarter to \$135 million, while adjusted segment EBITDA improved 4.2% to \$269 million, with a margin of 16.1% from 15.1% in 2018.

Converting shipments were up less than 1% in the quarter.

In comparable 2019 results with other producers, WestRock's paperboard revenues through the March to September 2019 quarters at \$4.99 billion were down 10.1%, operating income of \$311.2 million was down 14.1%, and volume at 2.84 million tons was down 4.1%, according to company earnings reports.

"Year-over-year, pricing improvements, lower energy, material and freight costs and productivity improvements, were only partially offset by lower volumes, lower pulp prices and wage inflation," WestRock CEO Steve Voorhees told analysts.

He said current backlogs on all grades are at levels "that we expect during this time of year," with solid bleached sulfate (SBS), coated unbleached kraft (CUK), and coated recycled board (CRB), all at three-to-six weeks.

The lower shipment volumes in the quarter were "primarily due to the restoration of inventory" following strategic outages at the Covington, VA, SBS mill, and the Mahrt CUK mill in Alabama, he added.

The company reported full-year 2019 paperboard sales of \$6.6 billion, off 0.2% from 2018, with operating income of \$388 million down 12.8%.

WestRock Pres of Consumer Packaging Pat Lindner addressed analysts' questions on volume stagnation in the quarter despite higher converting volumes and the increase in winning plastic conversion business.

He reiterated the impact of restoring inventory levels in SBS and CUK after the mill outages and about 60,000 tons of lost production.

Graphic Packaging volumes notched above WestRock in a year-to-date comparison, partly reflecting Graphic's acquisition of the White Pigeon Paper mill in the September quarter.

2019 Consumer packaging/paperboard financial results

(\$ millions)

	Revenues 3Q 2019	% chg 2019/18	Operating Income	% chg 2019/18
WestRock (4Q)	1,668.8	-2.4	135.0	3.7
Graphic Packaging	1,581.6	3.2	122.7	-26.2
Clearwater Paper	216.6	0.8	17.1	-55.3
YTD 2019				
WestRock *	6,606.0	-0.2	388.1	-12.8
Graphic Packaging	4,640.3	2.6	401.1	14.4
Clearwater Paper	649.7	4.2	80.1	-18.8

Global operations, segment/operating income.

* WestRock YTD is through its 4Q 2019 ending in September.

Source: Company reports.

Lindner said tighter backlogs were seasonal and clarified that CRB trade data showed backlogs down to around three weeks and SBS "might be around three or four weeks of backlog."

Linder said WestRock's CUK and CRB backlogs were three-to-

four weeks and SBS was higher due to "higher end" products being out four-to-six weeks.

"The reason for that is really attributable to the strategic outages that we had, that I mentioned before and the reduced availability of capacity

and volume to sell in some of our markets so our SBS backlogs continue to be longer or a little bit longer than what the industry is publishing," Linder explained. "We expect to catch up on some of that although in the first quarter," by bringing backlogs down and serve customers "in the shortest time possible."

Recent data from the American Forest & Paper Association showed total SBS unmade orders at the end of October were down 13.2% from a year ago at 448,000 tons. CRB continued at new lows with unmade orders at 106,000 tons, 39% below a year ago.

Lindner also highlighted the company's integration levels around three primary market segments of tobacco, commercial



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Consumer packaging/paperboard shipments 2019

(000 tons)

	Shipments 3Q 2019	% chg 2019/18
WestRock (4Q)	939.9	-5.5
Graphic Packaging	992.9	2.5
Clearwater Paper	214.5	-1.6
	YTD 2019	
WestRock *	3,770.8	-0.2
Graphic Packaging	2,902.2	0.3
Clearwater Paper	624.6	0.2

* WestRock YTD is through its 4Q 2019 ending in September.
 Source: Company reports.

and liquid packaging, about 40% of all SBS sales. CUK integration was 70% and CRB 60%, he said, according to a transcript.

"We generally view integration as a positive, especially as we get close to our end user customers and sustainability and sustainable packaging and plastics replacement," Linder said.

Similar to Graphic Packaging's results and an earlier investor presentation, WestRock emphasized its sustainability strategy, achieving \$100 million in annual run-rate sales since mid-2018 across consumer and corrugated packaging and machinery.

New revenues included \$50 million in food service, \$20 million in beverage, \$20 million in consumer and healthcare, and \$10 million in retail and e-commerce.

The market for fiber-based packaging to replace plastic is estimated at \$5 billion.

Voorhees highlighted a new Pak On Demand paperboard pouch to replace plastic bubble mailers, and an award-winning sustainable paperboard blister card package that replaces a fully enclosed plastic clamshell package.

• **Utah PaperBox** recently invested in a **Fujifilm J Press 720S** sheetfed production inkjet press and experienced an immediate boost in sales, the supplier announced. "We were in need of a press that was higher quality and could run more sheets per hour compared to what we were previously using, and the J Press was the right choice," said Mike Salazar, VP of operations. Established in 1914 under the name Union Label, Utah PaperBox is a 105 year old, fifth generation family-owned company in Salt Lake City. The 250,000-ft² plant employs 200.

• **Spectrum Lithograph** is expanding its folding carton business with a new **Fujifilm J Press 720S** at its Fremont, CA, location. "Our core business is folding cartons," said Shawn Pereira, VP of sales and marketing. "We service the medical and pharma industry, retail, and confection markets as well. We wanted to be more competitive within the industry, and digital inkjet was the answer." A second-generation family-owned business, Spectrum Lithograph opened in 1981. It operates out of a 25,000 ft², with 20 employees.

--by jmclaren@fastmarkets.com

Packaging

More paper, less plastic seen from legislative push

Packaging around the world will continue to use more paper and less plastic as increased regulations and legislation, and the push for sustainability among businesses and consumers continues.

Paul Jenkins, managing director at ThePackHub, a UK-based packaging consultancy company, told attendees of Fastmarkets RISI's International Containerboard Conference (ICC) on Nov. 15 in Miami that a "migration" out of plastic packaging and into fiber-based packaging will continue as businesses make "significant changes" in their packaging.

From bread and beverages, to shampoo and produce, Jenkins shared many models of these shifts to fiber-based packaging. Cosmetics, candy and produce continue to see shifts to paper-based packaging.

Additionally, the days of plastic six-pack rings on beer cans "are gone," he said as aluminum cans are increasingly packaged in corrugated boxes or with toppers made of recycled corrugated. The change for the UK market, Jenkins said, will lead to 517 tonnes of plastic being removed by the end of 2021.

"There is significant anti-plastic sentiment," Jenkins said. "Brands are seeing the opportunities."

Collins Dictionary named "single-use" as the word of the year for 2018, Jenkins said, as another

example of the environmental awareness of single-use products, which often are plastic.

Plastic elimination is one of several sustainability packaging trends taking shape globally, including packaging that uses biomaterials, such as a coffee cup made of coffee waste or mushroom tissue used as packaging insulation, and is compostable and biodegradable, as well as reusable and refillable. Of these trends, he said that reusable and refillable packaging is a "massive" growth area. This includes the "biggest area of opportunities" in Mexico, France, the UK, and Singapore.

As one example, refillable, microchipped bottles used with Coca-Cola Freestyle machines in the UK allow users to choose Coca-Cola-branded drinks at vending machines using their specialized reusable bottles. As another, Loop, a global circular shopping platform designed to eliminate single-use packaging to instead use multi-use packaging, delivers products to homes and picks them up again when emptied, which Loop then cleans and refills again. Brands behind Loop include, Tide, Clorox, Crest, Seventh Generation, Glad, Gillette and Tropicana.

"The containerboard market plays a role in this," Jenkins said of the growing refillable and reusable packaging sector.

By mworkman@fastmarkets.com

UK grocery chain provides model for plastic replacement

With a seemingly never ending barrage of company announcements to do away

with plastic, in many end uses, paperboard industry players were urged to embrace "this massive opportunity" to gain back a share of the packaging market that was lost over decades.

"I've been on both sides of the fence," UK supermarket chain Iceland Food's former Head of Packaging Ian Schofield told attendees of the Paper Packaging Council (PPC) Fall Meeting in Minneapolis Oct. 24, said about his time in the industry.

Now consulting with IHS Solutions, he said people were thinking of packaging every day because of the "tsunami" of issues caused by it – from ocean pollution to eating and drinking micro-plastics daily.

Iceland Foods as well as fellow UK retail chain Tesco have unveiled aggressive moves to eliminate plastic packaging from their stores and from the European circular economy.

Schofield, who noted Iceland Food's hash tag is 'Too Cool for Plastic,' laid out the megatrends of future global conditions – urbanization, not enough food, food waste, running out of water, and keeping up with demand for electricity.

"They are a tsunami that is coming for us," he told mostly PPC folding carton industry attendees about a bleak future. "There is a fog around what materials to use."

Plastic is 9% recycled, 12% incinerated, and 79% discarded, Schofield noted.

He asserted Iceland's target to eliminate plastic by 2023 is "a pledge we are determined to deliver on," and was equally insistent it would be "cost neutral."

"We cannot charge more. We must take costs out," he said. "Don't kid yourself."

He said the company tackled the issue by empowering its packaging buyers, setting goals, finding alternatives, and starting trials.

"Paperboard was brilliantly in the forefront," of alternatives to plastic, he added.

Tailwinds to support the transition from plastic include that "customers want it," and "environmental bodies support it."

He countered "poor arguments from the plastic industry," and noted the media abounds with "bad plastic stories" over cups, water bottles and straws.

Headwinds he said included the price of alternative packaging, three-to-ten percent higher for paperboard, and that "people hate change." New materials must also perform in shelf life and food safety.

"We're rethinking packaging in all its guises," Schofield summarized, saying the new awareness of the environmental impact of packaging and pollution "is not going away."

"The youth will demand it," he said of sustainable solutions. "It's on everyone's radar."

–by jmclaren@fastmarkets.com

Liner export prices settle

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of 35.762 billion ft² was the highest per-calendar-day average since the June low-point, according to Fibre Box

Association statistics. October's average per calendar day was 1.153 billion ft², up from June's 1.061 billion ft², July's 1.085 billion ft², August's 1.109 billion ft², and September's 1.043 billion ft², based on P&PW research.

For November, a few sources told of flat demand, which has been the theme all year.

Year-to-date average-week US shipments were up 0.2% (with one less shipping day this year vs in 2018 through October) while year-to-date actual shipments were down 0.2% totaling 329.047 billion ft².

Further, US producers increased their operating rate, and containerboard inventory at mills and box plants decreased by 100,000 tons from the level in September and 83,000 tons from October's 2018 inventory total. The October inventory total was 2,399 million tons. The containerboard operating rate rose to 94.7% in October, from 93.0% in September. That rate was below the October 2018 rate of 96.6%, according to American Forest & Paper Association statistics.

Several US contacts reported OK box demand so far this month and they seemed humble about the picture going forward, hoping for a good December book of business.

For export, US kraft linerboard to Mexico appeared to end what has been a more than yearlong decline, with levels holding after a \$80-85/ton drop. US kraft linerboard to Central/South America also appeared to be holding, despite civil protests in three countries

and new leadership in a fourth, after a \$130/ton plummet in the last year. China's pricing for US kraft linerboard appeared to be unchanged, with all market eyes still on

potential increased tariffs starting in mid-December.

Several export contacts in different regions said a pickup in demand caused the potential

US containerboard/box statistics – October 2019

	(000 tons)			
	Oct. 2019	% chg. yr ago	YTD 2019	% chg. 2018
Box shipments ¹	35.762	-0.5%	329.047	-0.2%
Average week		-0.5		0.2
Containerboard consumption	2,944	0.0	27,122	0.3
Production				
Linerboard	2,236	-3.1	21,230	-5.8
Corrugating medium	983	7.8	9,123	-0.9
Total containerboard	3,219	0.0	30,353	-4.4
Exports/imports				
Linerboard exports	386	-0.3	3,284	-17.3
Containerboard imports	111	-17.8	1,104	-10.4
Operating rates (%)	Oct. 2019	Sept. 2019	YTD 2019	YTD 2018
Linerboard	92.8%	91.9%	89.5%	96.5%
Corrugating medium	99.3	95.5	95.2	96.9
Total containerboard	94.7	93.0	91.1	96.6
Containerboard inventories	Oct. 2019	Sept. 2019	Oct. 2018	Chg. (tons) prior month
Mill inventories	326	352	296	-26
Box plant inventories	2,073	2,147	2,186	-74
Total inventories	2,399	2,499	2,482	-100

1. bsf=billion ft². YTD=year-to-date, n.a.=not available.

FBA to release box shipment and inventory statistics Feb. 1 after annual audit.

Source: Fibre Box Assn, American Forest & Paper Association, US Bureau of Census (Imports).

US containerboard inventories at box plants and mills

	(000 tons)							
	2019		2018		2017		2016	
	Tons	Week's Supply	Tons	Week's Supply	Tons	Week's supply	Tons	Week's supply
December			2,659	3.9	2,379	3.6	2,302	3.5
November			2,561	3.9	2,335	3.5	2,222	3.5
October	2,399	3.7	2,482	3.9	2,350	3.6	2,252	3.6
September	2,499	3.8	2,588	3.9	2,379	3.6	2,392	3.8
August	2,555	4.0	2,566	4.1	2,393	3.8	2,394	3.9
July	2,580	3.9	2,564	4.1	2,421	3.7	2,476	4.0
June	2,489	3.8	2,381	3.8	2,323	3.7	2,426	4.0
May	2,587	4.0	2,408	3.8	2,334	3.7	2,578	4.3
April	2,613	4.1	2,437	3.8	2,389	3.7	2,661	4.3
March	2,734	4.4	2,428	3.9	2,359	3.9	2,672	4.5
February	2,781	4.5	2,396	3.9	2,492	4.2	2,725	4.7
January	2,835	4.5	2,500	4.1	2,467	4.0	2,786	4.6

n.a.=not available.

Source: American Forest & Paper Assn, Fibre Box Assn.

hold in pricing in three of four regions surveyed by P&PW. These contacts also saw the demand increase this month as a one-month "blip." They expected demand to fall back in December to an oversupplied position.

"Nothing systematically has changed. I don't see this (one-month rise-up in demand) as a sustained situation," one trader said.

Another in Mexico responded similarly.

"We're in high production season now with a short-lived demand," the boxmaker said.

'Uncertainty reigns supreme.'

In his presentation at this week's International Containerboard Conference (ICC) in Miami Beach before more than 250 attendees, Fastmarkets RISI's packaging analyst Ken Waghorne described the North American containerboard and box market using the term "uncertainty reigns supreme."

His presentation noted that "economic uncertainty remains the biggest threat" and he asked if the "trade wars (will) push the global economy into a deeper downturn."

Another trader told of leadership change in Argentina, and cited protests in Bolivia, Chile, and Ecuador.

"Of course, these protests disrupt business. That's what they are supposed to do," the contact said.

"These are interesting times in South America. We need to watch these things carefully. If they persist, we will have bigger problems" demand-wise, the contact said.

US kraft linerboard exports were down 15.5% year-to-date through September and off by 509,000 tonnes, vs 2018 exports through September, according to US government figures. Shipments were down 3.3% to Mexico at 560,000 tonnes year-to-date, were down 25.3% to China at 321,000 tonnes, and were up 0.5% to Italy at 211,000 tonnes and up 20.8% to Canada at 209,000 tonnes. The kraft linerboard exports totaled 2.77 million tonnes year-to-date through September, down from 2018's 3.28 million through September.

• **At Fastmarkets RISI's ICC** in Miami Beach this week, Jonathan and Dan Kraft made a surprise appearance to honor Jack Schwarz as Schwarz was being recognized as RISI's third Lifetime Achievement Award winner in the containerboard and corrugated industry. The Krafts presented Schwarz a New England Patriots Game Ball. Jonathan credited Schwarz for growing a business that in turn helped countless other companies develop their businesses in the industry. Schwarz grew **Schwarz Partners** to a multi-billion-dollar containerboard and corrugated company from a firm that started very small about 20 years ago. His sons Jeff and John now run the business on a daily basis. Schwarz and the **Kraft Group** are owners of **New Indy Containerboard**, one of the 10 largest containerboard producers by capacity in North America. **WestRock** executive Jim Porter, who won the RISI lifetime achievement award last year, also spoke and credited Schwarz for his innovations in the industry, including sheet feeders and microflutes.

• **WestRock** was honored at **ICC** as the first recipient of RISI's Special Recognition Award. The

company was selected based on its \$4.9 billion acquisition of **KapStone**. The deal, in value, is the second largest in containerboard/corrugated behind **International Paper's** \$6.0 billion acquisition of the **Weyerhaeuser** containerboard, corrugated, and recycling business in 2008. WestRock CEO Steve Voorhees told attendees that he expected WestRock to spend \$100 million/yr through 2021 in capital spending at KapStone assets. Voorhees credited his company for a diverse network of business packaging options, from corrugated boxes and folding cartons, to plant machinery for both the substrates, as well as unbleached kraft paper. From this large position, he said WestRock has campaigned to cross-sell products to individual companies. WestRock today has 152 customers that buy at least \$1 million/yr in products vs 102 in 2016. Voorhees said his company's focus continues to be to make what customers precisely want. He told of fast-changing market needs and speed-to-market as highly important today. "(Customers) demands are changing rapidly," he said, because how consumers buy products are changing.

• **McKinsey Sr Expert** and Associate Partner Daniel Nordigarden told attendees that he believes the next "big" increase in e-commerce business will involve grocery store goods. He said e-commerce buying of grocery foods and other goods "will grow a lot of the new growth for corrugated (packaging)."

• Several **ICC** panelists said US **lightweight linerboard** capacity is to rise and that the "sweet spot" basis weight for recycled linerboard in North America will be in the high-20s on a lb basis. **Kruger** official Serge Desgagnés

added that his average basis weight now is 27.9 lb. Panelists from Kruger, **Hood Container**, **Metsä Board**, and **Alternative Paper Solutions** discussed the future of lightweight linerboard.

--by grudder@fastmarkets.com

Industry slows in 3Q

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International Paper (IP), Packaging Corp of America (PCA) and Domtar.

IP and Domtar are major players in the dramatically weaker pulp market, IP and PCA are top-tier producers in the deteriorating containerboard sector, and all three firms have exposure to the shrinking uncoated freesheet market (UFS).

That's not to say the quarter was without beneficiaries. WestRock, Greif and Graphic Packaging all reaped rewards from historically low recovered fiber pricing, while reduced pulp costs and higher selling prices for tissue boosted Kimberly-Clark's results.

Cascades, which in mid-September closed its acquisition of tissue maker Orchids Paper, benefitted on both counts, with sales hitting a third quarter record and three quarters of 2019 earnings equal to 92% of full year 2018.

Sales, earnings slide. All told, the group of 21 publicly traded North American pulp, paper and forest products firms whose quarterly financial filings are tracked by Fastmarkets RISI's

Pulp & Paper Week reported combined third quarter revenues of \$25.125 billion, 3.3% less than combined revenues of \$26.001 billion in the third quarter of 2018.

Thirteen of the 21 firms, almost two-thirds of the industry, reported weaker sales than in the year ago quarter, with six firms reporting a double-digit revenue drop – West Fraser Timber, Resolute Forest Products, Canfor, Verso, Rayonier Advanced Materials and Fortress Global. Of the eight that grew sales year-over-year, only two saw better than single digit increases – Greif (23.7%) and WestRock (12.6%).

The impact on group earnings was even greater than on sales, with combined third quarter profits of \$1.678 billion excluding one-time items skidding 29.3% from \$2.375 billion a year ago.

Six of the 21 firms lost money in the quarter and eight more had lower profits than a year ago, with particularly big drops at firms exposed to pulp and graphic paper markets such as IP (-32.7%), Domtar (-40.2%), Verso (-40.7%), and Sappi North America (-45.1%).

Yet once again there were outlying money-spinners. Five of the six firms that improved profits year-over-year posted double-digit gains, with Kimberly-Clark's Consumer Tissue group, Schweitzer-Mauduit and Neenah Paper all increasing earnings by around 25%.

The North American industry's profit margin, represented as combined earnings excluding special items expressed as a percentage of combined revenues, was 6.7% – one of the lowest third quarter margins in recent years and below its 7.7% five-year average. It was disproportionately impacted by poor performance at three large companies in Canada, and absent the results of West Fraser, Canfor and Resolute would have been almost two percentage points higher.

Packaging sector 'mixed.'

For the big three US packaging companies – IP, WestRock and PCA – whose combined revenues account for almost half of the North American industry's sales, quarterly results were mixed.

September quarter sales at WestRock, ranked No. 2 by revenues, were up 12.6% at

Cogs as a percentage of net sales 3Q 2019

Company	(\$ million)	(\$ million)	% share
	Sales	COGS	
International Paper	5,568	3,772	67.7%
West Fraser Timber	901	686	76.1%
Packaging Corp. of America	1,751	1,339	76.5%
WestRock	4,652	3,573	76.8%
Greif	1,253	973	77.7%
Sonoco	1,354	1,088	80.4%
Canfor	835	674	80.7%
Domtar	1,283	1,041	81.1%
Graphic Packaging	1,582	1,325	83.8%
Cascades	957	811	84.7%

Source: Company reports, Pulp & Paper Week

US paper/forest product sales & earnings -- third-quarter 2019

(\$ million)

	----- Sales -----			----- Earnings -----		
	3Q 2019	% chg. 2019/18	2Q 2019	3Q 2019	% chg. 2019/18	2Q 2019
International Paper*	\$5,568	-5.6	\$5,667	\$431	-32.7%	\$460
WestRock	4,652	12.6	4,690	322	-4.1	287
Packaging Corp. of America*	1,751	-3.2	1,760	182	-13.7	194
Graphic Packaging*	1,582	3.2	1,553	57	-16.9	70
Kimberly-Clark	1,484	1.0	1,472	264	24.5	221
Sonoco*	1,354	-0.7	1,360	98	12.5	96
Domtar*	1,283	-6.1	1,317	55	-40.2	36
Greif*	1,253	23.7	1,213	75	5.3	48
Cascades*	957	7.5	952	122	17.5	19
West Fraser Timber*	901	-27.7	984	(11)	n.m.	(13)
Canfor*	827	-17.5	981	(34)	n.m.	(9)
Resolute Forest Products*	705	-27.6	755	(34)	n.m.	11
Verso*	616	-12.5	602	64	-40.7	(61)
Clearwater Paper*	445	4.4	452	(8)	n.m.	(0)
Rayonier Advanced Materials	416	-16.9	185	(15)	n.m.	19
Sappi North America*	394	1.5	343	17	-45.1	(3)
KP Tissue	280	5.9	273	3	0.0	(2)
Schweitzer-Mauduit*	256	-1.4	270	31	25.3	33
Neenah Paper*	232	-9.5	253	16	25.3	16
Eagle Materials	155	-0.3	152	49	-10.5	48
Fortress Global	15	-57.9	27	(5)	n.m.	(46)
Total	\$25,125	-3.3%	\$25,262	\$1,678	-29.3%	\$1,424
Profit margin (earnings/sales)				6.7%		5.8%

Note: earnings represent net income, unless noted. Only major non-recurring items listed in footnotes. n.m. = not meaningful due to loss. () = loss. * = represents after-tax income from continuing operations, before special items. Canadian dollar results were converted to US\$ at an average exchange rate of \$0.757 for 3Q 2019, \$0.765 for 3Q 2018, and \$0.747 for 2Q 2019. **Canfor:** Adjusted shareholder net income. 3Q 2019 results exclude \$35 million net in items including \$41 million countervailing and anti-dumping duties expense. **Cascades:** 3Q 2019 results exclude \$56 million net in positive items. **Clearwater Paper:** 3Q 2019 results exclude \$2.7 million net in items. **Domtar:** 3Q 2019 results exclude \$35 million of closure, asset impairment and restructuring costs. **Eagle Materials:** Sales and operating profit of Gypsum Wallboard and Paperboard Group only. Fiscal 2Q 2020 ending Sept. 30. **Fortress Global:** Q3 results exclude \$34 million net in items including \$24 million asset impairment. **Graphic Packaging:** 3Q 2019 results exclude \$5.3 million net in charges. **Greif:** Fiscal Q3 ending July 31. 3Q results exclude \$12 million net in various items. **International Paper:** 3Q 2019 results exclude \$87 million net in non-operating pension expense and other charges. **Kimberly-Clark:** Sales and operating profit of Consumer Tissue Group only. **KP Tissue:** 3Q 2019 results exclude \$3 million in items. **Neenah Paper:** 3Q 2019 results exclude \$2 million net in items. **Packaging Corp. of America:** 3Q 2019 results exclude \$3 million net in items. **Resolute Forest Products:** 3Q 2019 results exclude US\$9 million net in various charges. **Sappi N. America:** Operating profit for fiscal Q4 ending Sept. 30. **Schweitzer-Mauduit:** Q3 2019 results exclude \$3.5 million net in various items. **Sonoco:** 3Q results exclude \$6 million including \$4.7 million asset impairment charges. **Verso:** 3Q 2019 results exclude \$34 million net in various charges. **West Fraser:** 3Q 2019 results exclude \$23 million net in negative items. **WestRock:** Fiscal Q4 ending Sept. 30. Q4 2019 results exclude \$9.4 million net expense from various items.

\$4.652 billion. Adjusted earnings of \$1.24/share (EPS) for the firm's 2019 financial year's fourth quarter beat analysts' \$1.19/share expectations, while its adjusted EBITDA of \$891 million – including \$586 million from the North American corrugated packaging business – was modestly below analysts' recently reduced \$893 million estimate. Adjusted EBITDA from the KapStone assets WestRock purchased a year ago was \$111

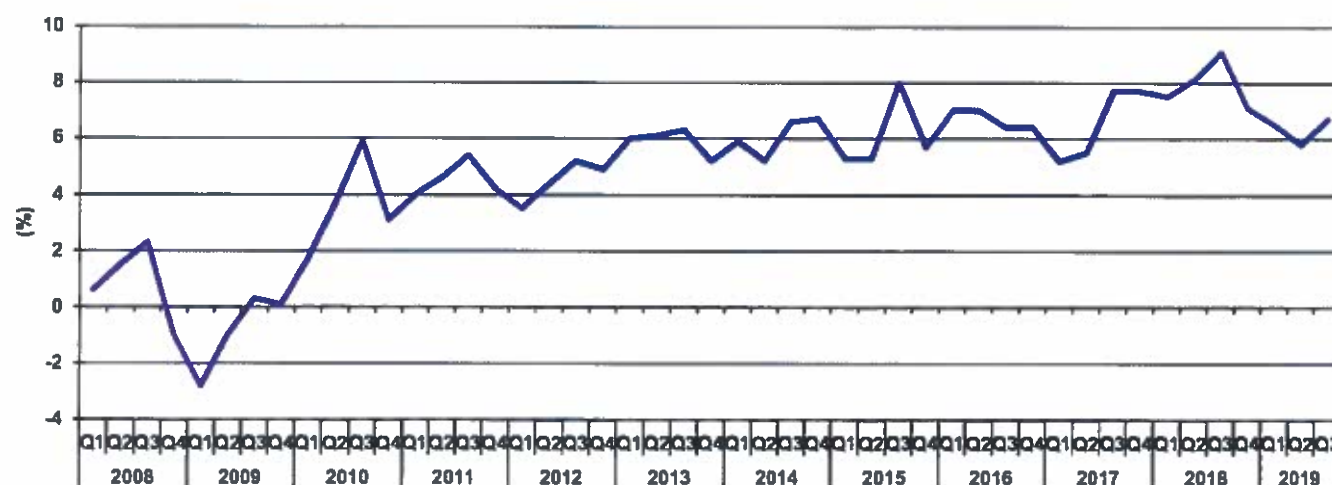
million, while run rate synergies and performance improvements from their integration were \$90 million. Annual adjusted free cash flow was north of \$1 billion for the fourth consecutive year and its leverage at year-end was 2.92x.

By contrast, sales of \$5.568 billion at No. 1 ranked IP slid almost 6% from 2018's third quarter, mainly due to this year's much weaker export linerboard and pulp pricing. But IP's earnings per share (EPS)

came in better than expected, largely driven by stronger than anticipated results in its Industrial Packaging and Printing Papers segments, and beat analysts' \$0.99 EPS estimate with a solid \$1.09/share from operations.

Industry watchers were somewhat divided over what to make of IP's quarter. Vertical Research Partners analyst Chip Dillion called it "a huge beat," after IP "smashed expectations" in the

Quarterly margins for us paper/forestry firms – 2008-third-quarter 2019



Note: The number of companies included in the survey varies due to merger and acquisition activity, consolidation, and company's withdrawal from publicly traded stock markets.

Source: PPI Pulp & Paper Week.

second quarter. But RBC Dominion Securities analyst Paul Quinn stuck with his Sector Perform rating, commenting: "Scary good execution, but weak end-markets."

Sales also slipped at PCA, the No. 3 in North America by revenues, dipping 3.2% from the year ago quarter to \$1.751 billion. Consolidated earnings excluding special items were \$182 million, 13.7% lower than in the third quarter of 2018. Overall EBITDA was \$364 million adjusted for special items, a 10.3% reduction from a year ago, with packaging EBITDA down 17.8% year-over-year and Paper EBITDA swinging the opposite way for a 30.8% improvement.

KeyBanc Capital Markets analyst Adam Josephson was unsure why this should be the case, but with industry fundamentals weakening, and PCA trading near a 52-week high and 9.0x his 2020 EBITDA estimate, he reiterated his Underweight rating.

Pulp, paper woes. Domtar's EBITDA of \$136 million was down 29.5% from a year ago and the firm's EBITDA margin contracted to 11% from 14% in the third quarter of 2018. Pulp sales were 15% lower than the same period last year and estimated EBITDA from pulp before items was negative \$13 million. Paper shipments by the North American leader in UFS production fell 8% from a year ago. Even so, Domtar's \$0.89/share earnings on sales of \$1.3 billion were better than RBC's Quinn had anticipated. The firm said its average transaction price for paper in the third quarter was down \$3/ton from the second quarter, but also noted that its September exit price was \$13/ton below the three-month average.

Unfavorable pricing and volume also had a \$32 million negative impact on coated papermaker Verso in the third quarter that more than offset a \$5 million benefit from cheaper freight, chemicals, energy and purchased pulp. Verso's operating income was \$28 million, down \$52 million

from the year ago quarter's \$80 million, with adjusted EBITDA of \$64 million and a margin of 10.4%.

The same factors impacted Sappi North America, which said its September quarter profitability, was impacted by a 13% drop in US graphic paper demand and 9% decline in average net selling prices for pulp compared with last year.

Weaker demand and pricing for pulp and paper was further compounded at Canfor, Resolute and West Fraser, which also have varying degrees of exposure to stagnating lumber markets.

Canfor's third quarter operating income turned dramatically negative. Income from its pulp operations plummeted almost \$80 million to a reported \$33 million loss, while consolidated results plunged \$94 million into the red from a \$153 million profit a year ago.

"The material decline reflected significantly lower operating earnings in both the lumber and

pulp and paper segments, and substantial curtailments taken by both businesses during the third quarter," said CEO Don Kayne.

Resolute's balance sheet also swung into the red with a third quarter net loss of \$34 million excluding items, versus income of \$96 million in the third quarter of 2018. Lower pricing was a \$48 million hit, with market pulp accounting for \$34 million of it. "While pricing was lower across all segments except for tissue, the most significant impact was the \$114/tonne drop in market pulp pricing," the firm said.

West Fraser was still in the black with adjusted EBITDA of \$42 million, down almost 88% from its year ago level. However, Quinn noted that "normalizing" for export duties reduced that figure to \$8 million, only a third what analysts were expecting.

--by ccook@fastmarkets.com

News briefs

The Toledo (OR) city council voted 4-2 for a 15-yr property tax exemption for **Georgia-Pacific's** (GP) large containerboard mill in the coastal north Oregon city. GP must invest in a certain amount of capital spending to receive the exemption, the local *Newport News Times* reported. One capital project is the so-called Juno project, where GP wants to gain fiber for its paper machines from fast food and other items that have been previously unrecyclable and landfilled. Some Toledo residents "don't like the fact that we are paying, or are willing to pay yet again, for a multi-billion dollar corporation," said city councilor Betty Kamikawa. "We could be giving away everything.

That's just not a good way to be anymore. It's never worked in the past to the advantage of the citizens, and I don't see it working to our advantage in the future." Without Toledo's participation, Mayor Rod Cross said that the mill could be in danger of closing. "My friends and neighbors who work at that mill would be out of a job and having to look for a place," Cross said. "I've seen that in other places I've lived, and it's not pretty."... The parent company of **Sears and Kmart, Transformco**, last week secured a \$250 million lifeline and announced plans to shut 96 more stores, leaving the business with 182 locations, CNBC reported. The financing came from lenders that include owner Eddie Lampert. Transformco added it is taking the steps to focus on its "competitive strengths." But it faces "a difficult retail environment and other challenges." Lampert bought Sears out of bankruptcy court for \$5.2 billion earlier this year, and acquired 425 Sears and Kmart locations. He argued at the time that his offer was the best option to keep stores open

and save thousands of jobs. The announced closures and needed financing show that the Sears brand continues to struggle to win back shoppers, despite Sears Holdings filing for bankruptcy and restructuring, CNBC said... The **American Forest & Paper Association** presented its 2019 Better Practices, Better Planet 2020 Sustainability Awards at its annual meeting Nov. 8 in Bluffton, SC. Five AF&PA member companies received six awards. "The winning projects further our industry's sustainability record and contribute toward achieving the Better Practices, Better Planet 2020 goals," said AF&PA Pres/CEO Heidi Brock. Award winners were: **WestRock** - Leadership in Sustainability - Safety, and Innovation in Sustainability - EnShield Natural Kraft; **Resolute Forest Products** - Energy Efficiency/Greenhouse Gas Reduction (Large company); **Seaman Paper** - Energy Efficiency/Greenhouse Gas Reduction (Small company); **Domtar** - Sustainable Forest Management; **Green Bay Packaging** - Leadership in Sustainability - Water.

PPI Pulp & Paper Week

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