



# CONVERMAT

Convermat Corporation  
45 North Station Plaza, Great Neck, NY 11021  
Shaw@Convermat.com  
www.convermat.com

Phone 516.487.7100  
Fax 516.487.7170

Print date March 13, 2001

## Walden's Paper Week Convention New York, NY March 12-14, 2001

### “TISSUE WATCH”

#### The increasingly global economy and the state of the tissue industry

By: Shaw Shahery

**GREAT NECK, NY, March 2001** – Mergers & acquisitions, Europe, Asia, Latin America, and the Internet. All of these have become factors in the rapidly growing globalization and changing face of the tissue industry. Only a few years ago it was quite enough to describe a company as “the leading company in the US” to assume its likely global market dominance. That’s something that none of us can any longer take for granted.

In the 80s, the top seven tissue producers in the US held approximately 80% of tissue capacity. A decade ago, this equation changed and the top six ended up with almost the same 80% of market capacity. Throughout the 90s, and until recently, the top four controlled approximately 85% of tissue capacity in the US, and the same group controlled almost one-third of world capacity.

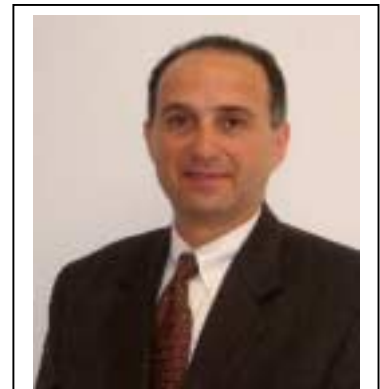
Today, it’s down to the “top three:” Georgia-Pacific, Kimberly Clark, and Procter & Gamble. However, the true story is that there’s now really only one king-of-the-hill, and that it will be hard (if not impossible) for Kimberly Clark and Procter & Gamble to catch

up to Georgia-Pacific in terms of capacity.

The stunning \$11 billion acquisition of Fort James by Georgia-Pacific enabled GP to buy its way into the top spot, with a total US capacity of almost 3 million tons – twice that of number two, Kimberly Clark, and nearly three times that of number three, Procter & Gamble. In any case, the race is no longer close.

The distance between two and three is much smaller, so that they could exchange their positions as the result of a single deal. But neither will have an easy time catching up to Georgia-Pacific’s capacity and market dominance.

The total US tissue market capacity is approximately 7.5 million tons, with the global market nearly 20 million tons. Georgia-Pacific, with 3 million tons in the US and another million tons in Europe and elsewhere, represents 40% of US capacity, and a little more than 20% of the world market – a substantial position by any measure for the industry.



Contact: Shaw Shahery  
**Convermat Corporation**  
(516) 487 7100  
shaw@convermat.com

#### The Industry Position

Among the three of them, they command approximately 5.5 million tons, roughly 75% of the entire US market output. The same top three represent a little more than 25% of the entire world capacity.

The second-tier players are in a similar situation to the first tier. American Tissue, with approximately 450,000 of capacity, positioned itself as number four purely through opportune acquisitions and the purchase of other mills since 1992.



## CONVERMAT

SCA purchased the number five spot for \$850 million by acquiring GP's divestiture of their existing commercial/industrial tissue businesses. This totals 550,000 tpy of converting capacity and approximately 360,000 tons of tissue capacity at nine locations. SCA, which had been looking to make solid inroads into US markets, has now done so, and been moved up to number three in the AFH business.

The top 5 now account for approximately 6.5 million tons, or roughly 85% of the entire tissue capacity in the US. The remaining five in the US are Potlatch, Marcal, Plainwell, Baywest and Cellu Tissue.

The two tiers cover the top 10 players in the \$8 billion US tissue sector and, when combined, they control more than 90% of total US capacity. The tissue sector is known for its higher profit margins, lower cyclicity, and more stable growth rates than the rest of the paper industry. That explains why there have been so many consolidations since 1995, and why the competition has only intensified. After the most recent mega-mergers, is our consolidation over yet? Certainly not.

Consolidation has played an even more significant role in the AFH market. The top three, GP, KCC and SCA, account for approximately 85% of that segment in the US, compared with only 42% for the three largest players in Europe, namely SCA, KCC and GP.

Production figures have also continued to keep pace with the steady growth of capacity. Estimates for production increases in 2000 are around 2%, and projections for 2001 are in the same range. This is

fairly healthy considering that it follows on a 4% increase 1999.

Where were the capacity increases? Four new tissue machines were added in 1999 (two were replacements), and another four came on line during 2000. When all the tallies are completed, it looks like tissue paper capacity increased 3-4% in both 1999 and 2000. Another four machines are planned for the 2001/2002 period, with projected overall capacity around 3% for the 2002/2003 period.

Some analysts are concerned that we now have too much capacity, and that we may face falling operational rates, and even downward pressure on pricing. But others believe that, since overall growth is strong, the new capacities are a healthy sign.

### **From the International side... and the SCA story**

Most of us who have been part of the tissue industry thought that as 2000 appeared on our calendars we would see the end of the astounding run of mergers and acquisitions – more than 40 – since 1995. But we were wrong, because they've continued with even greater force and effect. Globalization has come to our marketplace with just as much intensity as any other, if not more.

Meantime, in the \$ 6.7 billion European tissue market, we need only look to Sweden's SCA to see how that company has rapidly become a global force in the market. The company now has significant holdings throughout the world, despite a failed attempt to gain approval from the European Commission for a buy-out of

Finland's Metsa Tissue. SCA is already Europe's largest tissue supplier, producing more than one million metric tons per year.

SCA began getting serious about its buying spree in 1995 when it took over Germany's PWA, which at the time was roughly half the size of SCA. Then SCA moved on to Kimberly-Clark's tissue mill in Prudhoe, Great Britain. In 1997, the company purchased a 20% interest in the Latin American tissue producer Productos Familias of Columbia, which it increased to 50% one year later. That increase also brought Tecnopapel of Ecuador into the deal, which Productos Familias had purchased earlier.

When, in 1998, SCA purchased Marpo of Spain, they immediately had 35% of the tissue market share in that country, as well as a foothold in the country's away-from-home business. Next, SCA moved into Russia, buying Svetogorsk Tissue from Sweden's Tetra Laval. A few months later, SCA hopped into Brazil with a 50% holding in the 60,000 mtpy tissue producer Melhoramentos Papeis, and into the Philippines with the outright purchase of Holland Pacific Paper.

In 1999 SCA returned to England with the purchase of AM Paper, which increased the company's share of the English market to just under 30%, and brought SCA firmly into the UK's private-label market. Later in 1999, SCA returned to Spain to purchase Papelera Noya, a private-label tissue maker, bringing the company's market share there to 26%. And, immediately after, they did it again in Portugal, taking over Nisa, a leading tissue company there.



## CONVERMAT

Elsewhere in the world we've noted that many companies have been making deals: Irving Tissue has acquired Procter & Gamble's Toronto tissue production and converting plant. Kimberly-Clark will be purchasing Linostar, the number one Italian diaper manufacturer (currently owned by Amsterdam-based Bolton Group). This acquisition will make four manufacturing facilities Kimberly-Clark owns in Italy. Kimberly-Clark will also be acquiring the remaining 33% interest in Taiwan Scott Paper Corporation from the former owner, Goldsun Development & Construction.

As far as capacity growth outside North America during the 1999-2002 period, we will have total of 46 new tissue machines with total capacity of more than 1.6 million tons. Europe accounts for a little more than half, or about 900,000 tons of the new capacity. Asia accounts for 14 new machines and about 440,000 tons. And Latin America accounts for the remaining 300,000 tons and nine new machines.

Now here's an interesting conundrum: With our free trade agreements and NAFTA, is Mexico considered part of the North American market? If yes, then one can add Kimberly Clark Mexico's current 550,000 tons of production capacity, and planned addition of another 80,000 tons. They are a long-term supplier of jumbo rolls of tissue with substantial influence in the US market. Convermat handles 90% of Kimberly Mexico jumbo roll capacity going to the US and to all international markets.

The global picture could be quite favorable for the US mills. The industry is well-prepared to take advantage of weakening

US dollars and anticipated Euro strength.

### **What will these mergers mean to the overall tissue market?**

Changes ... big changes. Demand will likely continue to grow in conjunction with population changes. But supply could be altered if the bigger companies don't see certain markets as profitable.

There may well be mill closures, further brand consolidation, and more intense competition in the retail and away-from-home tissue markets. Also, lower capacity growth and curtailed expansions are likely choices for the big players as they can easily balance the supply and demand without worrying much about the other players. One immediate result of the GP purchase of Wisconsin Tissue was the cancellation of Wisconsin Tissue's \$180 million green field recycled tissue mill in Weldon, NC. All these could mean more stable and profitable times ahead for the remaining players, less uncertainty and better decision-making process.

There may also well be significant opportunities that arise as a result, such as micro-markets that are simply missed by the giants. That will open the way for smaller operations to fulfill those niche demands. The private label market, growing faster than many others, is a good example. Also, we have witnessed in the US a number of brand new start-ups in recent years, such as Green Bay Converting, National Tissue, US Alliance Global Tissue, and CPPI, both in at-home and AFH segments.

Relationships will become more and more important as customers want to know that

they can truly count on their supplier, no matter what the markets are doing. Niche marketing, and close-contact relationships will play a bigger role. Smaller manufacturers and distributors will naturally see themselves as more vulnerable versus the big players, and will have to seek a closer alliance with smaller manufacturer/converters to maintain their livelihood.

In addition to Georgia-Pacific's acquisition of Fort James, we noted other recent US deals: American Tissue Corp. purchased the Ampad and Forms divisions of American Pad & Paper Co.; American Tissue Holdings acquired the Berlin and Gorham, NH mills from Crown Vantage; American Tissue Inc. acquired Global Tissue LLC of Memphis, TN; Georgia-Pacific's 90% stake in Chesapeake's Wisconsin Tissue Mills Inc. (now sold to SCA); and Buckeye Technologies purchase of UPM-Kymmene's airlaid nonwoven business. Plainwell is now in Chapter XI and the question is "will they come out of it themselves or will someone buy them out." Edwards Paper was just auctioned off on Valentine's Day.

### **Where tissue stands**

Did someone say something about a slowing economy? It seems our industry has too much going on to notice. Demand may drop in the first six months of 2001, but as of now it looks as if prices will remain stable. Energy prices are a concern, but the lower interest rates help. And "Pulp & Paper" writes that the tissue industry maintains the most stable growth rates with the highest profit margins in the paper industry, and should remain strong through 2002.



## CONVERMAT

Everyone in the tissue industry has been steadily moving away from commodity and cyclical products in order to place more emphasis on value-added and converted tissue products. All of the "top three," which were all vertically integrated, now view tissue as a value-added product, less cyclical than other commodity products, and with good profit margins. As a result, in recent years, they have sold some of their other cyclical assets.

Meanwhile, consumer brand leader Procter & Gamble continues to improve and enhance their manufacturing and the quality of their products. With two brand-new state-of-the-art TAD machines in the pipeline, and the new capacity, Procter & Gamble is effectively moving away from the production of conventional tissue and will focus only on their value-added brands based on TAD substrate.

TAD is currently on the wanted list of many second-tier manufacturers and independent converters, primarily serving the

At Home markets. At one time or another, this product has been on everyone's shopping list. The issue so far has been the limited overall installed capacity, undesired machine trims resulting in inefficient converting processes, high cost of jumbo rolls and even higher transportation cost, when compared to conventional tissue. As technology improves and the cost of manufacturing is lowered, we anticipate greater opportunities for TAD in the coming years.

Toschi's recent announcement to sell TAD machines based on licensee agreement with Procter & Gamble and utilizing their technology (along with Fabio Perini's 49% ownership in that company) are all signs of the growing trend toward further commercialization of TAD technology and higher growth in that market segment.

### **About Convermat**

Founded in 1976, Convermat specializes in the sales of jumbo rolls of tissue, napkin, towel, specialty paper, board, kraft and

pulp. Convermat holds a major share of jumbo roll tissue sales in the United States and a number of growing and emerging countries. The company has often been described as the "jumbo rolls leader" in the tissue industry. Convermat has the largest tissue, towel, napkins and wiper customer base in the industry with a solid presence in the US, Canada, Mexico and more than 80 countries around the globe. Convermat's professional sales staff handles every aspect of the transaction including transportation & logistics, documentation, technical specifications, foreign currency management, credit financing and post-sales service.

In March 2001, Convermat announced the launch of the industry's first Web site dedicated solely to the Tissue industry. Headquartered in Great Neck, New York, Convermat has branch offices in Plantation, Florida; Appleton, Wisconsin, and Vancouver, BC. Visit [www.convermat.com](http://www.convermat.com) for complete company information.