The Independent Sector: Who’s being successful, and why

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Panelists

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Agenda

• Definitions
• Overview of US Corrugated Industry
• Overview of US Independent Sector
• Discussion: what does it take to be a successful independent today?
• Conclusions, Q&A
Definitions

- **Integrated**: a company *vertically integrated* in forest, pulp, mill and box plant operations. Many but not all of these are publicly-held.

- **Independent**: *privately held*, entrepreneurial, generally *without majority ownership in mill assets*.

- **Sheet Feeder**: a company, independent or integrated, whose sole product is *corrugated sheets*.

- **Corrugator Plant**: company with *corrugator(s)* and *full-line box making* capability.

- **Sheet Plant**: company which *buys sheets* on open market and then makes boxes using its *box-making* capability.
Industry Overview, 2016

- $31 Billion
- 369 Billion square feet in 2015
- 1,166 plants, integrated and independent
- 70,000 employees (+/-)
- “Mature, Consolidating Industry”
- Still innovative, creative and sustainable

Source: Fibre Box Association, 2015 Annual Report
US Corrugated Industry

Number of Plants

- Integrated Corrugators: 367
- Integrated Sheet Plants: 115
- Independent Corrugators: 128
- Independent Sheet Plants: 605

Source: Fibre Box Association, AICC
US Independent Sector

• Privately-held, family businesses

• Avg sales, 2014
  – Corrugator Plants: $67 million
  – Sheet Plants: $19 million

• Avg shipments, 2014
  – Corrugator Plants: 693 million sq ft.
  – Sheet Plants: 158 million sq ft
Market Share (BSF of Shipments)

18-year trend
Independent share of shipments remains in 24-26% range

Source: Fibre Box Association 2014 Annual Report
Demographics

Corrugator Plants
- 62% first/second generation
- 37% third, fourth +
- Average age of company: 67 Yrs.

Sheet Plants
- 85% first/second generation
- Average age of company: 43 Yrs.
US Independent Corrugator Plants

Shipments, Sales, Containerboard Purchases, Grade Structure
US Independent Sector
Shipments & Sales/Corrugators

Average Shipments

- 2014 Shipments: 693.8
- 2013 Shipments: 646.5

Average Sales

- 2014 Total Sales: $67.8
- 2013 Total Sales: $61.6

AVERAGE SHIPMENTS (MM SQ/FT)

AVERAGE TOTAL SALES ($MM)
US Independent Sector
Tons of Containerboard Consumed

- 3,000 tons/month
- 4 millions ton/year
- ~14% of annual domestic c’board output

Source: AICC, American Forest & Paper Assn.
Containerboard Buy

Kraft Linerboard Grades by Weight

- 26 and <
- 26-33
- 34-41
- 42
- 43-61
- 62-69
- 69 and >

Recycled Linerboard by Weight

- 26 and <
- 26-33
- 34-41
- 42
- 43-61
- 62-69
- 69 and >

Source: AICC, American Forest & Paper Assn., Ralph Young
US Independent Sector
Employment/Corrugators

2014 Est Employee Distribution (180 Total)

- **Plant Employees**: 130
- **Sales/Marketing**: 26
- **Distribution Employees**: 7
- **Administrative Employees**: 8
- **Other Employees**: 9

Percent Breakout

- **Plant Employees**: 72.2%
- **Sales/Marketing**: 14.4%
- **Other Employees**: 5.0%
- **Admin Employees**: 4.4%
- **Distribution Employees**: 3.9%
US Independent Sheet Plants

Shipments, Sales, Containerboard Purchases, Grade Structure
US Independent Sector
Shipments & Sales/Sheet Plants

Sheet Plant Average Shipments

- 2014 Shipments: 158.5
- 2013 Shipments: 151.1

Sheet Plant Average Total Sales

- 2014 Total Sales: $19.1
- 2013 Total Sales: $17.7

AICC
The Independent Packaging Association
US Independent Sector
Employment/Sheet Plants

2014 Avg Employee Distribution
(61 Total)

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<th>Category</th>
<th>Employees</th>
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<td>Sales/Marketing</td>
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<td>Distribution Employees</td>
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<td>Administrative Employees</td>
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<tr>
<td>Other Employees</td>
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</table>

Employment Percent Breakout

- Plant Employees: 55.7%
- Sales/Marketing: 20.0%
- Administrative Employees: 5.7%
- Other Employees: 12.9%
- Distribution: 5.7%

AICC
The Independent Packaging Association
Independent Sector

Principal Markets, Corrugator Plants

2014 Pct Federal state local, 0.3%
2014 Pct Pharmaceutical health, 7.2%
2014 Pct Printing publishing, 3.5%
2014 Pct Automotive, 3.3%
2014 Pct Hardware houseware, 4.3%
2014 Pct Appliances, 5.5%
2014 Pct Furniture, 4.1%
2014 Pct Agriculture, 8.2%
2014 Pct Cosmetics toiletries, 9.1%
2014 Pct Miscellaneous Mfg, 16.0%
2014 Pct Packaged food bev, 28.7%
2014 Pct Other, 9.9%
Independent Sector

Principal Markets, Sheet Plants

- Auto 10.3%
- Print/Pub 8.8%
- Misc 27.1%
- Food/Bev 14.9%
- Hard/Houseware 7.0%
- Furniture 4.0%
- Cosmetics 4.3%
- Ag 4.8%
- Other 6.5%
- Fed/State 0.6%
- Pharm 6.7%
- Other 6.5%
- Fed/State 0.6%
- Misc 27.1%
- Food/Bev 14.9%
- Hard/Houseware 7.0%
- Furniture 4.0%
- Cosmetics 4.3%
- Ag 4.8%
- Other 6.5%
- Fed/State 0.6%
- Pharm 6.7%
- Print/Pub 8.8%
- Auto 10.3%
BRIEF HISTORY LESSON

Post WWII – about 1985
Corrugated Plant = Profits
Figure 1. Historical Look at the U.S. Manufacturing Sector

Manufacturing vs. Services
(Percent of GDP)

Source: HIVe Analytics and World Bank Development Indicators. II Values for 2011 and 2012 are staff estimates based on IP growth rates of each country.
**CORRUGATED EQUIPMENT 1980 - 2015**

- **150% CORRUGATING INCREASE**
- **800% CONVERTING INCREASE**
- **LESS CONVERTING PLANTS ARE REQUIRED**

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<tr>
<td>1980's CORRUGATOR</td>
<td>87&quot;</td>
<td>400/MIN</td>
<td>85,000 MSF/MONTH</td>
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<tr>
<td>2015 CORRUGATOR</td>
<td>110&quot;</td>
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<td>SET UP</td>
<td>PCS/HR</td>
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<td>1980's CONVERTING</td>
<td>30 MIN</td>
<td>5000/HR</td>
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<tr>
<td>2015 CONVERTING</td>
<td>5 MIN</td>
<td>20000/HR</td>
<td>9,240,000 PIECES/MONTH</td>
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INDUSTRY CONSOLIDATION

- CONSOLIDATION AT ALL LEVELS
- INTEGRATED COMPANIES ACQUIRING INDEPENDENT COMPANIES
- INDEPENDENT COMPANIES ACQUIRING OTHER INDEPENDENT COMPANIES
- INTEGRATED COMPANIES ACQUIRING OTHER INTEGRATED COMPANIES
- MANY OF THE TARGETS WERE SMALLER POORLY CAPITALIZED COMPANIES

- A SMALL NUMBER OF LARGE INTEGRATED COMPANIES AND FEWER INDEPENDENT COMPANIES WERE LEFT
INDUSTRY CROSSROADS

- Oversupply of containerboard
- Very low export prices
- Continued low input costs
- Sluggish demand
- Announced price increase
INDUSTRY CROSSROADS

- INTEGRATION STRATEGY
  - INTEGRATED COMPANIES ARE BUYING INDEPENDENT COMPANIES VERY QUICKLY AND AT LARGE MULTIPLES
    - LESS EXPOSURE TO EXPORT TO OVER SUPPLY
  - CAN THEY KEEP THE BUSINESS
  - BUT HOW DOES THIS HELP N.A OVER SUPPLY
• TECHNOLOGY CHANGES
  • LIGHTWEIGHT HIGH PERFORMANCE RECYCLED PAPER
  • VERY FAST THROUGHPUT EQUIPMENT
  • DIGITAL PRINTING
• WHO WILL DARE TO INNOVATE
CONVERTING METRICS

- INTEGRATED COMPANIES
  - PER TON MENTALITY
- CORRUGATORS –
  - PER TON AND PER MSF PRODUCED FOR COST OF GOODS MANUFACTURED
  - PER MSF SHIPPED AND PERCENTAGE OF SALES FOR EVERYTHING BELOW THE LINE
  - FOCUS ON PRODUCT LINES, MARGINS AND CUSTOMER PROFITABILITY
- SHEET PLANTS –
  - PER MSF AND PERCENTAGE OF SALES
  - FOCUS ON PRODUCT LINES, MARGINS AND CUSTOMER PROFITABILITY
OPPORTUNITIES FOR THE INDEPENDENT

- Those looking for an exit strategy are hitting the proverbial jackpot
- Those staying the course expect lots of business to be in play from integrated acquisitions
- Learning how to corrugate and convert lightweight board
  - independents will look for opportunities to invest and support lightweight papermaking capabilities in N.A.
- Experimenting with digital applications
- Taking advantage of equipment innovations
THE INDEPENDENT BOXMAKER

- CUSTOMER ORIENTED
- INNOVATIVE
- OPPORTUNISTIC
- WELL CAPITALIZED
- WILL CONTINUE TO THRIVE (IN SMALLER NUMBERS)
SOUTHERN MISSOURI CONTAINERS, INC.
ARROWHEAD CONTAINERS, INC.
WONDER STATE BOX COMPANY, INC.
DESIGNERS OF CORRUGATED PACKAGING