

# BCN

BOARD CONVERTING NEWS™

An N.V. Publication

Converters' Outlook For 2012:

## Guarded Optimism Plus New Investment Equals Success

A new year. New beginnings. New opportunities for innovation and growth, fueled by the optimism that experience tells us can be all too fleeting. *BCN* is again proud to present the insights and outlooks of some of our industry's independent converters, the majority of whom experienced growth – albeit modest – in 2011 and expect more of the same in 2012. While the consensus among these converters suggests guarded optimism, there is a sense that forces outside their control – the European and domestic economies, government regulation and not least, consolidation by the integrators – will likely dictate the degree to which they achieve their goals and objectives. Here, then, in their own words, are *BCN's* converters' outlooks for 2012:

### Acme Corrugated

*Hatboro, Pennsylvania:* Bob Cohen reports, “The old proverb ‘May you live in interesting times’ seems to apply to almost everything these days, particularly the global marketplace and the consolidation activity we see in the domestic containerboard markets.

“Whether it is the debt crises in Europe or the inability of governments to fulfill their responsibilities to the people they represent, each action seems to impact the operation of our economic markets. The stock market seems extremely sensitive to the actions taken by the European Union, or should I say the inaction. The states of Europe have a history of defaulting. So this round of insecurity is no different with the exception that our large financial institutions have significant exposure to European debt. We can also be assured that Europe's reaction will be feeble and inadequate. No surprise there. This should be a major lesson to us regarding the political will to deal with debt

and entitlements. A lesson that once again has brought Europe to the brink of economic calamity.

“Domestically the only bright spot in the economy has been manufacturing. The housing market lies in an undeclared depression; the financial market is beset by poor asset performance and regulatory mandates. The prospects for a jobs recovery remain in doubt. Even under these adverse conditions, our company has seen a real uptick in activity through the last quarter of 2011.

“According to the Federal Reserve's Philadelphia District survey through November, manufacturing activity continues to gather momentum. The survey has confirmed continuing optimism for business activity over the next six months. That seems to coincide with our current experience. We have outpaced our budget for the year of 2011. What does this mean in relationship to expectations for the first quarter of 2012? Like most of you, we understand a case can be made for the continuation of the strong fourth quarter activity. The question of whether the current economy will support a strong first quarter is still open.

“Changes abound in the containerboard sector. If International Paper's acquisition of Temple Inland passes Department of Justice scrutiny, then major consolidation will have occurred in our business. By capacity, it would leave IP with 37 percent of the containerboard market and Rock Tenn with 21 percent. The fact is made more amazing when you consider that Rock Tenn was not even in the top ten producers five years ago.

“What does this mean to independents? I believe that on the box converting side we will enjoy a real



Bob Cohen

regional advantage. As the integrated firms become larger, they lose focus. Being big, whether the entity is a bank, a manufacturing concern or a service provider, seems to result in placing those businesses farther away from the customer and the customer's needs.

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*'We continue to "push the envelope" on fiber reduction and new products. We understand clearly that without progressive thinking and new options we will not be able to withstand the competitive pressures that loom in the future. It's the same industry, but with a new set of circumstances. We continue to invest in fundamentals, i.e. infrastructure, training, new technology with a heavy emphasis on sales and marketing.'*

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This enhances the independent's value to our customer. It certainly can't be lost on the major box consumers that their choices continue to shrink. This leaves independents with new and exciting opportunities.

"Partnering with large box consumers on supply is just one of the unintended consequences of the eagerly sought consolidation now in process. For independents, if they open their eyes, the market will present them with multiple opportunities. Ones that Acme will continue to exploit.

"There is a dark side to this equation though. Consolidation means fewer choices for box converters as well. Our ability to leverage our purchasing power will be negatively impacted. The issue is how to control margins when your raw material options are finite. I think I reflect the thinking of many independents when I speak of my desire to find fairness in raw material pass through. Historically a rise in the price of paper has not always been fully realized in the converted product. It seems fair to assume that in the search for an acceptable return on investment the large containerboard producers will intelligently optimize full costs throughout their system. I am reasonably certain that failing to control that aspect of their

managerial responsibilities will bring a very unfavorable reaction from analysts and shareholders alike. Any CEO of a major integrated producer (and his staff) who can't make significant returns under this new reality should be shown the door rather quickly.

"Where does that leave Acme? We continue to 'push the envelope' on fiber reduction and new products. We understand that without progressive thinking and new options we will not be able to withstand the competitive pressures that loom in the future. We continue to invest in fundamentals, i.e. infrastructure, training, and new technology with a heavy emphasis on sales and marketing. The changing culture has not been lost on us. We recognize the way communications between supplier and customer have become about ease of transaction and the role social media plays in commerce. We continue to refine our ways to market.

"Standing still is not an option. Those not seizing the market opportunities will not survive. The containerboard business has a chance to move from its commodity based approach to a more focused, more progressive and more profitable model. The question remains in my mind: Can they? Can they throw out 60 years of commodity thinking? Can they deliver real value to their customers - and get paid for it? We will need more time to assess whether the line between value and price can be bridged more thoughtfully by the major producers. Yet surely in the boardrooms of Rock Tenn, GP, IP and PCA these are the questions that, if answered intelligently, will change our business. It's something we can all hope for."

