

Paper Industry Commentary

From Fisher International

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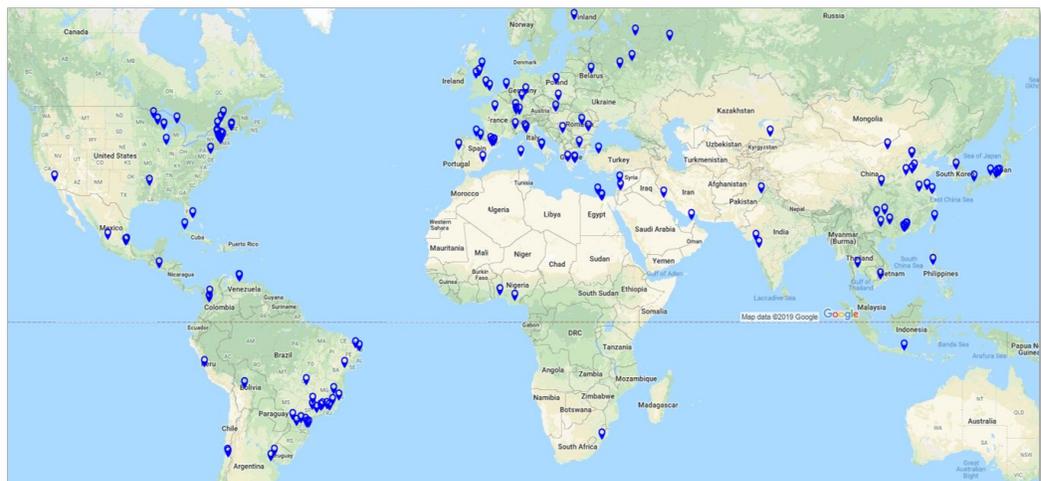
Could a Competitor's Restart Upstage My New Investment?

By Marcello Collares, VP Business Intelligence, Latin America, Fisher International

In such a highly capital-intensive industry like pulp and paper, any new investment must be very well thought out. On top of the capital needed for a new project, a large one needs 12-24 months for implementation from the time someone realizes there is an opportunity through construction itself. So, a good look into the future is required for the success of such projects.

We all in the business pay attention to the news, we talk to suppliers, we listen to our people in the field to make sure our new investment won't collide with others and therefore produce an oversupply of what looked to be a good idea. Once we make a decision, we

Idled Tissue Mills Around the World



Source: FisherSolve Next™
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Map A

might announce our intentions in hopes that others will think longer about matching our investment in the same grade. Well, at least we hope for that.

But what if someone magically could add new volume to the market before we can? Perhaps not “magically,” but what if a mill restarts an old line or a company restarts an old mill? Our planning also needs to take this possibility into account. But, is it even possible to foresee these variables?

Our platform, FisherSolve Next™, keeps track not only of operating mills, but also of the world’s stock of idled assets (Map A). We continue to model the cash costs of all mills bigger than 10,000 tonnes per year even after they have been shutdown. We also model projects before they start up with a technology called Virtual Mills, so we can easily analyze the chances that new capacity will come online from an existing source (Map B).

FisherSolve Next™ Virtual Mills by Grade



Source: FisherSolve Next™
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Map B

For this analysis, let’s consider tissue in a given European country. We can get Apparent Consumption data available in FisherSolve Next to understand the market, as Figure 1 shows.

The conclusion, based on the trend information over the last 3 years, is that a new machine with a 35,000 tonnes capacity will be required to meet future demand. A further analysis with FisherSolve Next’s Capacity Trends shows that we have no announcement of new capacity for the coming years. It seems clear that a new 35,000 tonnes machine should be built so long as it would be competitive, right?

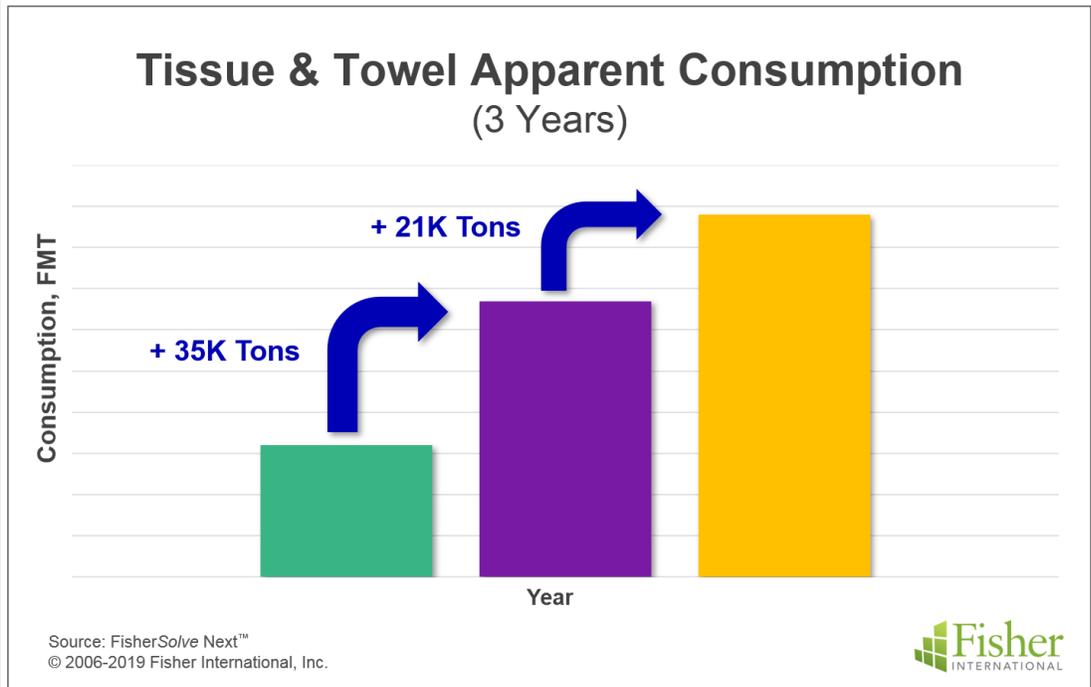


Figure 1

As you can see in Figure 2, a new project with a cash cost below USD \$1,000 per tonne would be a great idea, positioning this additional volume among the top 4 in the country.

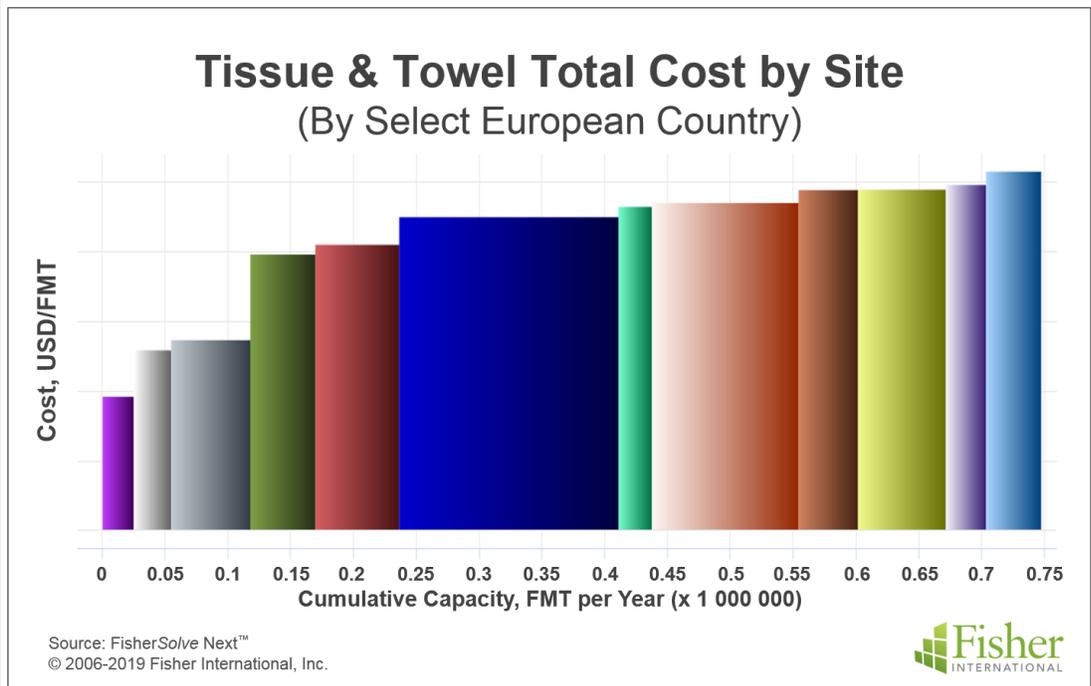
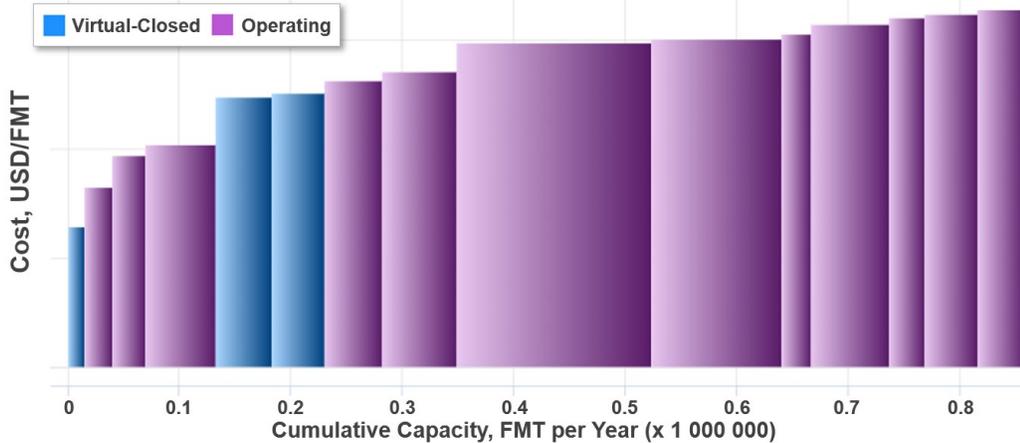


Figure 2

Tissue & Towel Total Cost by Site Status (By Select European Country)



Source: FisherSolve Next™
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Figure 3

Again, once we have decided and got the shareholders' approval to go ahead and build a new line, it would take up to 2 years to have it installed.

Meanwhile, what if the lowest cost mill (idled) shown in Figure 3 is restarted? What if all three idled mills come back online and start to produce?

This clearly can jeopardize our investment decision or reduce the return over the new investment. That is why we, at Fisher International, believe business intelligence gives the best return on investment – a small percentage of a new asset investment provides a clear view of the possibilities that can put your real cash at risk.

Marcello Collares



VP, Business Development
Fisher International

About Fisher International, Inc.

Fisher International, by virtue of its deep expertise in the pulp and paper industry, provides insights, intelligence, benchmarking, and modeling across myriad scenarios. By arming companies with the knowledge that will help them gain a better understanding of their strengths and help identify weaknesses, Fisher is helping businesses stave off challenges and better position themselves for long-term growth.

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Corporate Headquarters

50 Water Street
Norwalk, CT 06854 USA
+ 1 203 854 5390

www.fisheri.com

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