

**COMPANY PROFILE**

## **Paper Factory Proto Ltd.: proud of their "Primo" product!**

**With a population of 145,000,000 people and a per capita consumption of 2.5 kg, Russia constitutes a very interesting market for the development of tissue products use. In 2009, toilet paper consumption grew by 3% with a sales value of 11,000,000,000 RUB<sup>1</sup>.**

Maura Leonardi

The cultural aspect and consumption habits still remain two strongholds that slow down product development and penetration, but something is changing. If we take a step back and look at the RISI statistics for 2008, we can see that per capita consumption was 1.87 kg, with prevalence for toilet rolls. Today, the Russian tissue market is changed and is evolving; it has undertaken a structured growth path that mirrors the altered economic conditions of consumers. The increase in the middle class - which today counts over 15,000,000 people - has created new and interesting market segments for the development of tissue paper products consumption.

**THIS TIME, OUR TRIP TO RUSSIA HAD ROSTOV-ON-DON AS ITS DESTINATION**, in the south of the country. The city rises on the right bank of the Don River, from which it takes its name. Rostov is a logistically and geographically strategic city: a crossroad of road arteries that connects the entire Caucasus with the center of Russia. With its 1,068,200 inhabitants, Rostov is the birthplace of Paper Factory Proto Ltd., a vital, small and dynamic company comprised of 280 employees. Founded in 1998, in 12 years it has become an interesting industrial entity. The entrepreneur represents the motor of the company, and in this case, perfectly embodies the concept. The entrepreneurial adventure of Sergey Ar Kutulyan, Marketing and Sales Director, and Sergey Kh Dagldyan, Production Director, began almost by chance. After a long career as paper distributors for a Ukrainian company in Kiev, they decided to embark on a new entrepreneurial challenge by building the Proto company up from scratch.

**"FOR YEARS WE DISTRIBUTED PAPER IN THE ENTIRE REGION**, and almost by chance we decided to calculate the profitability of producing 300-500 tons per day of tissue, and we realized that for us, it would be much more profitable than selling 125 wagons of paper ... so we said, why not?", says Sergey Ar Kutulyan with pride. "We started to collect information about paper production, and thanks to a commercial partner who followed us in the initial phase of our project, we began our adventure. We knew the market perfectly but for us, the challenge lied in the organizational side of production. On August 17th, we placed the first of our two paper machines in production; machines built by ourselves that are still running at full regime today (one dedicated to the production of paper from pure cellulose and the other from recycled paper). Despite some initial financial difficulties due to the devaluation of the Ruble, our adventure was off to a start. We strongly believe in our company; we believed in it since the very beginning and we were stimulated by the desire to build and learn in a field that was for us partially unfamiliar."

**THE REGION OF ROSTOV IS PREVALENTLY AGRICULTURAL; PROTO LTD. WAS A PIONEER INDUSTRIAL ENTITY IN THE REALM OF TISSUE PAPER PRODUCTION** and still today maintains this primacy.

"I can safely state that all that we have built up to today we have done directly on the field, learning and sometimes making mistakes, but we are proud to boast a total production of 10,200 tons per year (5,100 on each PM) and our annual production of rolls is about 5,500/6,000 rolls per month (toilet rolls and kitchen towels) and 1,600,000/1,900,000 packs of table napkins.

For converting, we entrusted our production to the X3 Line by Fabio Perini S.p.A., the first model introduced during the Tissue World Asia 2004 show and purchased by us in 2005. An excellent investment that has allowed us to attain our current production levels.

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**THE CHOICE OF A TRUSTED TECHNOLOGICAL PARTNER IS FUNDAMENTAL** because it ensures the attainment of a production efficiency that immediately translates into a competitive advantage that has allowed us to maximize production, ensuring appropriate delivery times, permitting us to stipulate interesting work orders. Supplying machinery does not mean just assembling parts and putting electronics and mechanics together.

It means offering appropriate technology, a complete vision of the market that stems from experience and competence. For this reason, Fabio Perini S.p.A. was retained a perfect partner. At the beginning of our adventure, we invested in recycled paper, focusing our attention on a low quality product, typical for the Russian market, but now our strategy is changing," continues Kutulyan.

A change that highlights the new Russian tissue market trend. Consumption habits are changing and the entrance of large brands into the market has caused a mutation in course. If before consumers chose based on price - hence a low quality product - today we increasingly often find higher-cost, embossed, pure cellulose rolls in their trolleys.

**IN 2010 TISSUE PRODUCTS CONSUMPTION GREW BY 20%.** In 1998 the ratio was 1 pack of table napkins to 20 toilet rolls; today it is 1:1. The AFH segment is still non-existent, but here, too, there are strong signs of change. "The modification to our paper mill will allow us to increase the quality and quantity of tissue paper produced, proposing to the market higher level rolls and napkins, strengthening our autonomy in the supply of reels, weak point of many companies working in Russia. Our objective is to increase our 10% market share. Today, we work a lot with private labels, which cover about half of our production volume, but we want to focus on our own brand: Primo."

**"PRIMO HAS ALREADY CONQUERED A GOOD MARKET POSITION FOR ITSELF AND WE INTEND TO MAKE IT GROW EVEN FURTHER,** strengthening the product's image through a restyling both of the packaging as well as the quality of the product. Today, the market still demands a low-quality product for about 85% while 5% is instead constituted by the medium/premium segment; this will be our objective for the upcoming years. Primo is present on the shelves with toilet rolls, kitchen towels and table napkins, and quality will become its strong point in the quest to conquer this segment", declares Sergey Ar Kutulyan confidently.

Development prospects are surely not lacking, as the numbers confirm. And playing with numbers, the inhabitants of southern Russia total 25,000,000, and we can say that if we multiply by the estimated per capita consumption of 2.5 kg, we attain an annual consumption of 6,250,000 kg. All this according to official figures, which, however, do not correspond to reality, which registers instead superior consumption levels.

Paper Factory Proto Ltd. is a unique industrial entity on the Russian territory: a dynamic one in full growth.

Tenacity, constancy, far-sightedness are the qualities that distinguish Kutulyan and Dagldyan who, besides conducting Proto Ltd., have also invested with great entrepreneurial spirit in distribution - with small distribution areas in the city of Rostov - and also in the restaurant industry. •

[1] Source date Euromonitor.