

COMPANY PROFILE

Clearwater Paper moving at full speed after spin off from Potlatch

Clearwater Paper is clearly in the expansion mode, having recently bought Cellu Tissue, while it is at the same time installing a new TAD machine targeting the ultra-quality private-label bathroom tissue segment.

Perini Journal

Clearwater Paper is the name of the company that resulted when Potlatch Corporation decided to split itself into two companies. One, still called Potlatch Corporation, is devoted to forest lands and real estate assets, while the other, Clearwater Paper, is based on Potlatch's former assets making pulp, tissue products and bleached paperboard. While one might believe that Clearwater Paper is a completely new company name, it actually originated in 1963 when Clearwater Tissue Mills was formed in Lewiston, Idaho, as a 50-50 joint venture between Potlatch Forests and Swannee Paper Company of Pennsylvania. The name comes from the Clearwater River in Lewiston where the Potlatch pulp and paper mill (now Clearwater Paper) was and still is located.

UNLOCKING VALUE IN THE ASSETS. If we fast-forward about 45 years to 2008, the new Clearwater Paper was created in an effort to, as CEO Gordon Jones says, "unlock shareholder value which was difficult to release if the Clearwater Paper business remained part of Potlatch, which had become a Real Estate Investment Trust (REIT). The most efficient way to optimize the paper side of Potlatch was to create a separate company to realize the potential of the business."

Thus Jones, who has spent his entire 30-year career in the pulp and paper industry, starting originally with Procter & Gamble in Green Bay, Wisconsin, was brought in to be the Chief Executive Officer of Clearwater Paper. The assignment, he says, has thus far been both exciting and enjoyable. And while the timing for the launch of Clearwater Paper could perhaps have been better, considering the global financial crisis which developed in mid-2008, the sectors that Clearwater Paper is focused on could certainly not have been more fortunate.

IN THE BEST TWO SECTORS. "If you look at it from the outside," comments Jones, "we are focused on the two best sectors in the pulp and paper business today: private-label tissue and high-end bleached paperboard. Compared to all other sectors of paper, we believe these two are by far the best ones and we are fortunate to be in them."

While it may be simple good luck that they are in these sectors, it is clear that Jones and his management team are planning to make the most of the situation. Working quickly after the formation of the company, Clearwater Paper started looking at various options to expand in the tissue business.

Historically the group has had a strong national pre-sence in private-label consumer tissue in grocery stores in the United States. However, it saw opportunities to become a larger private-label tissue supplier which could cover and expand beyond the grocery stores.

BIG NEW TAD MACHINE ON EAST COAST. Specifically, Jones and his team saw an opportunity in the private-label tissue sector that had not been exploited. "If you look at the bathroom tissue market," explains Jones, "there were a very limited number of companies making ultra-quality bath tissue for the private-label segment. As demand for ultra is increasing, we believed the retail sector would welcome a new supply source."

Bob DeVleming, Division President of Consumer Products at Clearwater Paper, agrees, saying that "the possibility to make ultra-quality bath tissue for the private-label markets is an opportunity that was simply staring us in the face. Quality demands are increasing in the USA and we are well positioned to take advantage of that opportunity. TAD has grown from 68% of bath tissue sold in grocery stores in 2006 to 74% in 2010. This is a major shift. Likewise, we are confident that private label will continue to increase in market share. Private label tissue market share in North America is between 20-35% depending on the product, compared to European levels of greater than 50%.

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Thus we are very confident that private-label, TAD bath tissue will show strong growth.”

A CONFIDENT INVESTMENT IN QUALITY. That confidence is clearly manifested in Shelby, North Carolina, where Clearwater Paper is spending US\$260-280 million on a greenfield project. In June 2010, after searching numerous sites on the East Coast, Clearwater Paper announced that it had selected Shelby for installation of a new through-air-dried (TAD) tissue machine capable of making 70,000 short tons per year which should start up at the end of 2012.

“Shelby is all about increasing quality in our bathroom tissue offering, at the same time as it gives us additional TAD kitchen towel capacity,” continues DeVleming. “And although we were covering customers on the East Coast previously, we were shipping tonnage mainly from the West Coast, which is of course an enormous freight cost to carry.” Located 60 miles west of Charlotte, North Carolina, Shelby will give Clearwater Paper efficient access to most of the East Coast of the USA. As far as why TAD was chosen, Jones says: “We looked at other new technologies that we consider are slightly below the TAD option. But we wanted to go with TAD because we are clearly going to compete with the brand leaders who are also offering TAD product and we felt it is the best strategy to have very comparable technology.”

CELLU GIVES NATIONWIDE COVERAGE. Simultaneously, as the TAD project was moving along in Shelby, Clearwater Paper made an even bigger move. In December 2010 Clearwater seized the chance to acquire Cellu Tissue Holdings for US\$512 million. Cellu operated 16 tissue machines at several strategic locations in the US and Canada, all east of the Mississippi River. This acquisition immediately broadly expanded Clearwater Paper’s tissue manufacturing footprint and created a much stronger operational scale to better serve private label customers nationwide. The acquisition of Cellu raised Clearwater Paper’s tissue and machine glazed capacity by 2.5 times, going from 220,000 to 550,000 short tons per year. With Shelby running, this figure will rise further and Clearwater Paper will then have 21 tissue machines in operation, three of which make TAD. These are in Las Vegas, Nevada, and Saint Catharines, Ontario, as well as Shelby, North Carolina.

With a very strong presence throughout the East Coast, the Cellu facilities complement Clearwater Paper very well and give significant freight savings for the East Coast customers that Clearwater Paper was previously serving from its West Coast mills and converting plant near Chicago. The addition of the Cellu assets have thus catapulted Clearwater Paper to the number 6 position in the US tissue sector, behind GP, K-C, P&G, Cascades and SCA. More important than size, however, is the position it will put Clearwater Paper in.

EXCELLENT NICHE AND NO CONFLICT WITH OWN BRANDS. “We are in an excellent niche here,” says DeVleming, “to make the highest quality private label products for the largest US retail consumer channel, the grocery stores, which accounted for 38% of all sales in 2010.

The big guys may want to protect their brands so when they do make private-label products they produce a quality at a notch or two below their own branded products. Since we make no brands at all, we have no conflict in providing the highest ultra grades for the private-label businesses.”

The new eastern footprint and TAD machine are keys to growing the East Coast business, which DeVleming fully intends to do. “Our share of the private label tissue volumes in grocery stores is under 30% in the east. We think we can significantly increase this figure, given our 90%+ market share in grocery stores in the 11 western states.”

PERFORMANCE, RESULTS... AND SOME FUN. Obviously, Clearwater Paper believes in its strategy and will have spent close to US\$800 million on the two major parts of this approach when Shelby is up and running. The stock market, as well, seems to share that belief.

When the company was spun off from Potlatch in 2008, explains CEO Jones, the stock price was around \$15 per share. As the financial crisis of 2008 took hold, that price drifted down to \$6-7 a share. At the same time, he explains, many of the previous Potlatch investors saw the shares that they got in Clearwater Paper as a sort of bonus and sold them. This added to the downward pressure. Now as we spoke in mid-2011, the price was up to around \$75 a share, five times the initial price. Certainly not a bad development for the shares.

“I think you can say,” concludes Jones, “that we have proven the Potlatch board correct. This spin off has unlocked, and increased, shareholder value. The overall tone of what we're doing here at Clearwater Paper is centered on performance and results. We intend to keep achieving the results we have promised. We also intend to get Shelby up on time, on schedule and on quality. And we intend to fully integrate Cellu to take advantage of the numerous synergies available. All in all it's just a very positive story and we plan to continue that trend. At the same time, we are trying to have a little fun while we are doing this.” •