



# **Forest Sector Transformation: What is Really Happening!**

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# Preview

This study provides an “inventory” of

- Adaptation and/or transformation strategies for
- Medium- and large-sized forestry firms
- Canada and northern Europe
- Based on the strategies actually observed, from a review of publically-available information

Hence the title “what is really happening!”





# Outline

- **Introduction**
  - Current market situation
  - Recent research
- **Objectives and definitions**
- **Methods**
- **Results**
- **Conclusion**



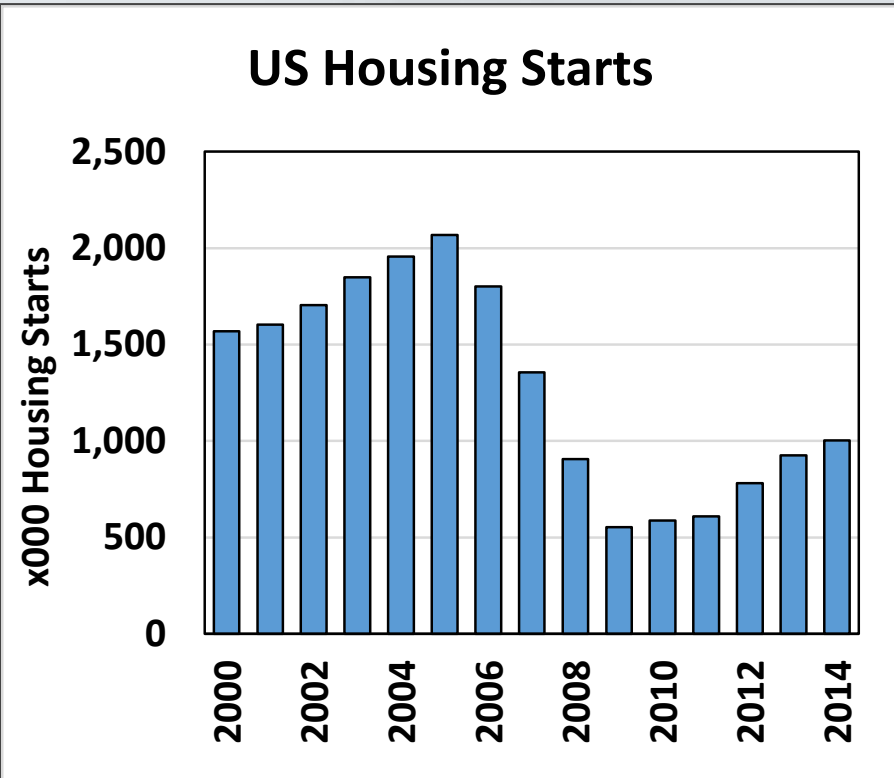
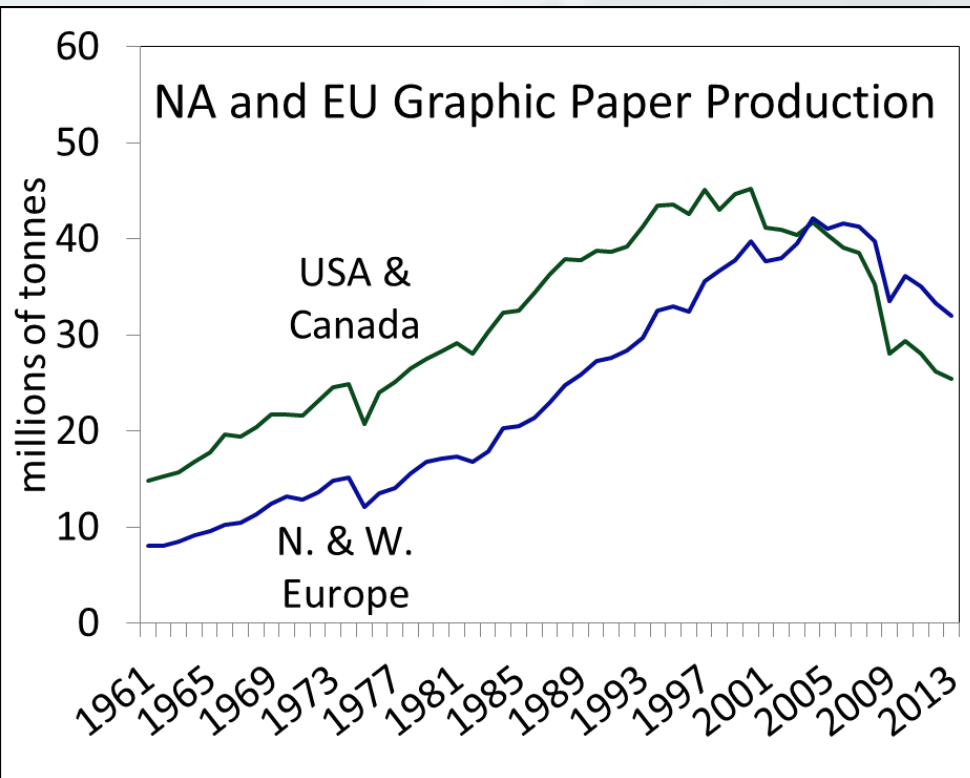
# Introduction

Since 2005, in North America:

- **Printing and writing paper demand has declined about 25%**
- **Newsprint demand has declined 50%**
- **Softwood lumber demand has declined roughly 30 %**
- **U.S. housing starts dropped from 2.1 million in 2005 to just 550,000 in 2009, and have since crept back to about 1 million**

# Graphic Paper Production *In Decline*

# Solid Wood Products *Stuck in a Rut*



Source: FAO

Source: US Census Bureau

# Community Impact



Courtesy of *The Chronicle Herald*



# Research Background

Cohen, D. H. and Nikolakis, W. (2013).

- Interviewed 43 executives in Europe and NA
- Most executives indicated they were “transforming” – but definitions varied widely
- <http://mediasitemob1.mediagroup.ubc.ca/Mediasite/Play/f4869f807e4840d1a602c9c1d43dcc641d>

Madero, A. (2014).

- Semi-structured interviews with 10 BC executives
- 6/10 indicated they would do LESS processing (i.e. sell more logs) rather than more

# Objectives

- To develop a “BIG PICTURE” overview of the strategies forest industry companies have employed since 2004
- To provide financial metrics for the publically-traded companies, in order to compare strategic actions and financial health





# Methods

From a content analysis of....

- Annual reports
- Corporate websites
- Industry publications
- Media releases
- Results from previous interviews by W. Nikolakis

And examining activities such as:

- Mill closures
- Acquisitions / divestitures
- New products,
- Leadership changes
- Bankruptcy / recapitalization

...We created a series of “mini-cases” for each company, describing their strategies for future success

# Methods cont.

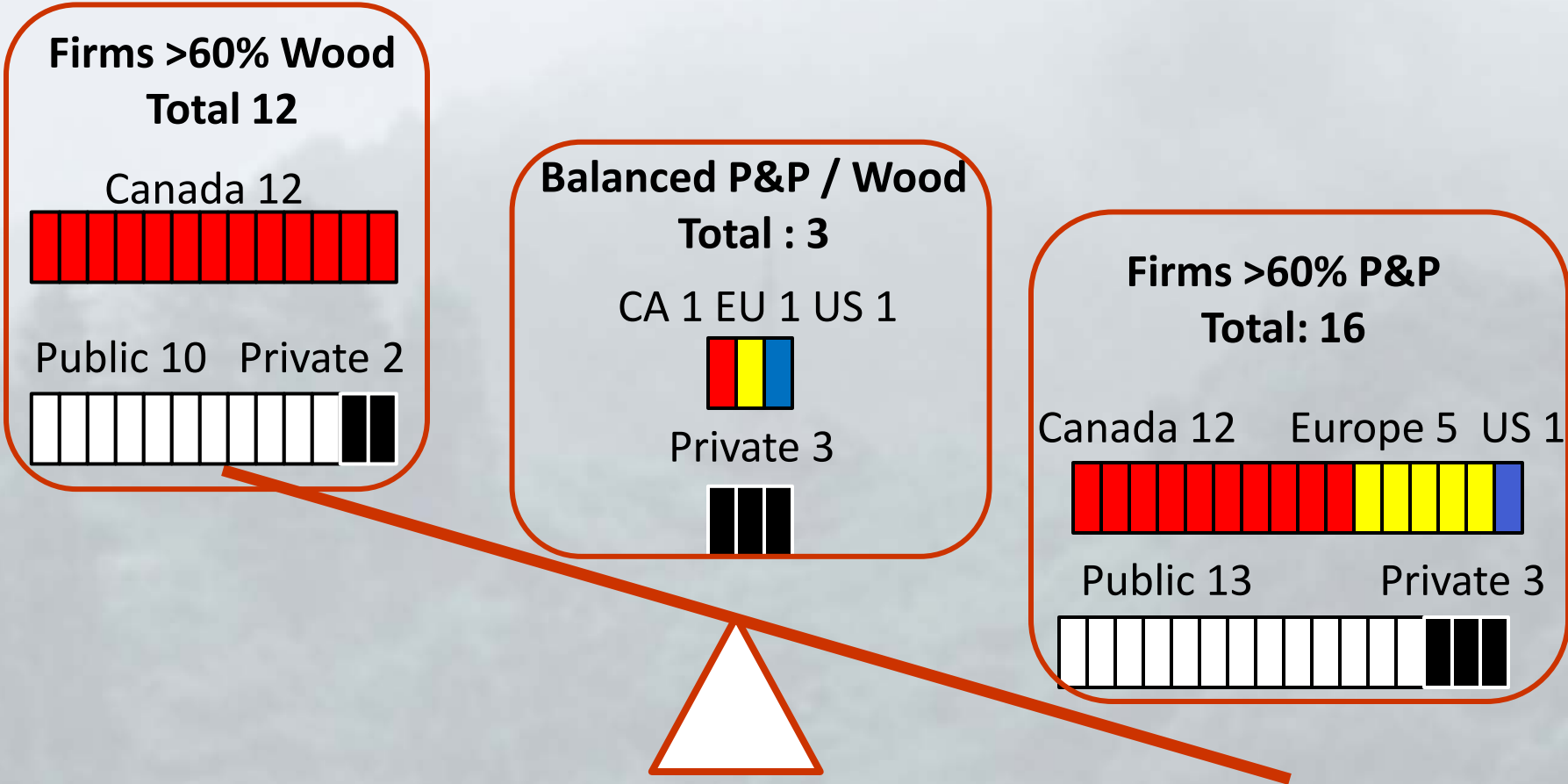
Compiled financial information from *Investopedia* :

- **Debt levels**
  - Debt to equity ratio
  - Degree of financial leverage
- **Financial competitiveness**
  - Return on capital invested
  - Operating margin (EBIT)
  - EBITDA margin
- **Annual revenue (a measure of company size)**

# Results



# Results: Breakdown by Classification



# Results: Breakdown by Classification

## Firms > 60% WP

### In Canada (12)

#### Public Firms (10)

Ainsworth  
Canfor  
Conifex  
Eacom (went private '14)  
Interfor  
Louisiana-Pacific  
Norbord  
West Fraser  
Weyerhaeuser

#### Private Firms (2)

TimberWest  
Tolko

## Balanced P&P and Wood Products (3)

JD Irving (Canada)  
Georgia-Pacific (US)  
Metsa Group (Finland)

## Firms > 60% WP

### In Canada (7)

#### Public Firms (10)

Cascades  
Catalyst  
Domtar  
Fortress  
Mercer  
Resolute  
Tembec

#### In Europe (5)

#### Public Firms

Holmen  
Norske Skog  
SCA  
Stora Enso  
UPM-Kymmene

#### Private Firms (3)

Alberta-Pacific  
Kruger  
Paper Excellence

### In USA (1)

#### Public Firms

International Paper

# Pulp and Paper Findings

*Some companies have changed a lot, others haven't*

- **Strategies that appear to be working:**
  - Shift backwards along supply chain (i.e. forestland)
  - Shift forwards (packaging, personal care)
  - Close redundant mills
- **Those that didn't:**
  - Shift into dissolving pulp (market got saturated)
  - Consolidate to rationalize production and maintain price (demand kept shrinking)

# Pulp and Paper Findings

## Observation:

Companies that identified the need to change early (i.e. 1990's or early 2000s) have fared better

Unanswered question: *did the companies that delayed do so out of indecision, lack of resources or poor leadership? Or some of each?*

Some companies haven't changed (yet). They are now stuck – lacking cash, focusing on improving efficiency of remaining mills and closing others.

# Solid Wood Findings

- **Deep recession for product demand**
- **Little change in terms of products or markets (except China)**
- **Changing log supply regions reshaping industry**
- **Common NA strategy is to close northern mills (Canada/US West) and buy mills in US South**
- **Large sawmill companies in western Canada have more options than their eastern counterparts due to better financials and market demand**



# Trends Common to Both

- **Operational efficiency is now a “given” – without it, companies will not survive.**
- **Access to capital is key to a successful transformation, especially for pulp and paper producers (capital intensive industry!)**
- **Some limited interest in new products and services, i.e. bioenergy, biofibre**



# Research: next steps

- **Add US firms to the inventory and update with 2014 financial results**
- **Review management literature for insight; identify relevant theories, adapt for relevancy to resource sector**
- **Survey corporate decision-makers to test and revise the theories for a forest industry context**



# Conclusion: What is *Really* Happening?

- Companies are indeed changing, but some changes are subtle and/or unexpected
- Pulp and paper businesses appear to have steeper change trajectories than those of solid wood producers
- Early recognition of need to change *may* be important
- Adequate investment resources (\$) are important
- A lot of unanswered questions remain

# For Further Reading

**Bogdanski, B. E. C. (2014).** The rise and fall of the Canadian pulp and paper sector. *The Forestry Chronicle*, 90, 785–793.

**Cohen, D. H. & Nikolakis, W. (2013).** *Changing gears: insight on transformation in the NA & European forest sector* <http://mediasitemob1.mediagroup.ubc.ca/Mediasite/Play/f4869f807e4840d1a602c9c1d43dcc641d> .

**International Wood Markets Group. (2014).** *Wood Markets: The Solid Wood Products Outlook 2015 to 2019*. Vancouver: International Wood Markets Group.

**Madero, A. (2014).** *Understanding the factors that drive firm-level transformation in the BC forest sector*. (Unpublished MSc Thesis, UBC Faculty of Forestry).