APPETITE FOR EXPANSION

How independents are growing and competing through acquisitions and joint ventures

By Steve Young

According to reports from Fastmarkets RISI, since 2013 there have been upwards of 50 acquisitions of independent companies in our corrugated industry. The period 2013–2018 has, in fact, been the most active in our industry's history in terms of independent companies being acquired (see the table on the next page). Calling the phenomenon a "feeding frenzy" among integrated companies, the Fastmarkets RISI report catalogs several case studies in which integrated companies have paid upwards of 10–13 times EBITDA (earnings before interest, tax, depreciation, and amortization) to acquire privately held converting assets.

But what about the independent buyers on this list? Companies such as Rand-Whitney, Hood Container, Buckeye Corrugated Inc. (BCI), Rusken Packaging, and Liberty Diversified International also appear alongside the publicly traded companies. These independents—and others—have been active players for several years now on the growth-by-acquisition stage. Major trade press reports often overlook these buyers, first because information about private transactions is, well, private, and in-depth analysis of the public companies' strategies is more readily attainable from stock analysts and other industry observers.

Larger companies' motives and drive for acquisition targets are well-documented. For example, as investment in mill capacity increases, raising the level of vertical integration is a key objective. Packaging Corporation of America's 2016 move with TimBar's five-plant system in the Mid-Atlantic and Southeastern states and their 2017 acquisition of Sacramento Container Corp. on the West Coast demonstrate this strategy.

North American Independent Corrugated Converter Mergers/Acquisitions (2016–2019)

YEAR	BUYER	CONVERTING ASSETS
2019	Bio-Pappel	US Corrugated
	Kraft Group	Specialty Industries
	Central National Gottesman	Premiere Packaging Industries
	New-Indy Containerboard	Proactive Packaging and Display
	Golden West Packaging Group	Allpak Container
2018	Hood Container	Custom Packaging
	Orora	Pollock Packaging
	Schwarz Partners	Mid-Atlantic Packaging
	DS Smith	Corrugated Container Corp.
	Green Bay Packaging	Grand Traverse Container
	Green Bay Packaging	Wisconsin Packaging
	Liberty Diversified	Preferred Packging & Crating
	Universal Forest Products	North American Container
	Hood Container	Cardinal Container
	Hood Container	Ideal Box
	WestRock	Plymouth Packaging
2017	Cascades	Coyle
	PCA	Sacramento Container
	Atlantic Packaging	York Container
	Ruskin Packaging	Great Southern Industries
	Georgia-Pacific	PAX Corrugated Products
	New-Indy	Dixie Reel & Box
	Hood Container	Richmond Corrugated
	Golden West Packaging	Cal Sheets/four sheet plants
	WestRock	Island/Combined Container
	WestRock	US Corrugated
	WestRock	Star Pizza
	Liberty Diversified	Miller Container
	BCI (Buckeye Corrugated)	Bell-Pak
2016	New-Indy	Container Services
	New-Indy	TriPAQ
	Hood Container	Action Box
	Hood Container	Packaging Unlimited
	PCA	Columbus Container
	PCA	TimBar Packaging
	Georgia-Pacific	Excel/Five Star Sheets
	Smurfit Kappa	Scope Packaging
	Smurfit Kappa	Empire Packaging/Displays

Table courtesy of *Pulp & Paper Week*.

"It's true that the bulk of the merger and acquisition [M&A] transactions over the past few years have been driven by the need for mill-based companies to have less of their tonnage subject to the open market," says Mitch Klingher, partner at Klingher Nadler LLC in Englewood Cliffs, N.J.

Klingher says that since North America exports approximately 500,000 tons of containerboard every month, a large percentage of the tonnage that these companies cannot consume domestically will be exported. "The combination of generally lower export prices and freight costs make this a far less attractive scenario for them."

Among independents, however, whose need for further vertical integration is in most cases less prominent, other factors surface as key drivers; customer needs across geographic regions, capital assets, good management teams, and new market niches are prominent motivating factors in independents' acquisition strategies. This article explores these and other reasons independents are mixing it up.

Geography and Culture

Jamestown Container Cos. began in 1956 as a one-plant operation in the Jamestown, N.Y., area. Joseph R. Palmeri, chief operating officer and one of founder Glenn Janowsky's first five employees, explains how the company's growth to six locations serving a four-state market area was motivated. "Many of our acquisitions have approached us, or we knew the principals and had a business relationship with them," he says. That alone, however, did not automatically qualify them as a desirable target. "Their book of business must fit our business model. It has to fill out our machine centers and be within our target market of 150–200 miles from our corrugator."

Geography plays to an independent's hometown or regional "cred." Local customers, regional name recognition, and

good reputation provide the foundation for regional expansion and growth. Recent acquisitions by Rand-Whitney, based in Worcester, Mass., and the largest independent corrugated producer in New England, illustrate the importance of regional reach in determining acquisition targets. In 2015, Rand-Whitney's New-Indy unit, a joint venture with Schwarz Partners, acquired Carolina Container, based in High Point, N.C., to establish the New England company's footprint in the Southeastern states. However, that created a gap in their service area, so to fill the hole, Rand-Whitney in July acquired Specialty Industries, a corrugated sheet plant in Red Lion, Pa.

"Carolina Container goes as far north as Virginia and Rand-Whitney as far south as Connecticut," explains Nick Smith, president and CEO of Rand-Whitney. "Our customers want us to service them nationally, and the Specialty Industries acquisition will allow us to support them in the Mid-Atlantic region."

Doug Bosnik, CEO of BCI in Fairlawn, Ohio, has been involved in five acquisitions and three joint ventures over the past 10 years, the most recent being Bellotti/Bell-Pak in the Syracuse, N.Y., area. BCI has nine sheet plant locations and joint ventures in three sheet-feeder operations: Alliance Sheets in Bristol, Ind.; North Star Sheets in Cottage Grove, Minn.; and Niagara Sheets in North Tonawanda, N.Y. Bosnik says geography played a key role in two acquisitions during his tenure at BCI: The Hawkeye Corrugated division in Cedar Falls, Iowa, and Dakota Corrugated in Sioux Falls, S.D. "When we acquired Hawkeye, we also had our eye on Dakota," he says, noting that the geographic proximity—plus the fact that the owners of the two companies were brothers—made the acquisitions attractive.

Rusken Packaging has staked out a large swath of the Deep South from its base in Cullman, Ala., where the company maintains a corrugator. In addition to the Cullman location, Rusken has converting plants in Harrisburg, Ark., and Jackson, Tenn., along with a kitting operation in Heflin, Ala. Rusken also has joint venture sheet-feeder partnerships with Corrugated Supplies Co.—RusCor in Cullman and CSC Atlanta in Conyers, Ga.

In recent years, Rusken has acquired four other sheet plants in the South: Cougar Packaging in Clarksville, Tenn.; Great Southern Industries in Jackson, Miss.; E. Smith Box Co. in Conyers; and Mullen & Co. in Canton, Ga. In describing these acquisitions, Greg Rusk, president and CEO, looks not only for geographic fit, but cultural fit as well. "When I think back on the '70s and '80s, there were a bunch of sheet plants in Birmingham and Huntsville [Ala.] markets, and these entrepreneurs capitalized on an opportunity to take care of the customer," he says. "By the mid-1990s, many of those same players had sold, and we felt as if we were the last man standing in the area."

Rusk says that as the big companies grew, the market lost the entrepreneurial spirit: "The personal touch was gone," he says.

So, Rusk set out to reinvigorate the culture in his market area. "As I traveled around, I met 60- and 70-year-old owners with children who had no desire

to stay in the business," he says. "I enjoy growth, and I felt that I could keep a culture alive and well in our industry by acquiring companies and bringing them into our family."

What About Customers?

Apart from the geography of an acquisition decision, are customer needs a motivating reason to drive a business to seek joint-venture partners or acquisitions? "Often, a company has a customer or group of customers who are expanding or moving to a new geographic area," says Klingher. "In this case it makes sense for them to look to acquire someone in those areas and leverage the situation using their existing customer contacts."

Nick Smith agrees: "We could buy or build a building and install equipment anywhere, but without a strong customer base and dedicated employees, it would be significantly more challenging."

Bosnik, however, expresses caution about following customers to new locations. "When customers drive you to go somewhere and there isn't a fit, it's difficult," he says. "In our view, a customer's needs are only one piece of the decision process. A customer could close a plant, and the reason that brought you there is no longer in place. Your customer wants you to be a sustainable, viable operation to support their needs. That means a broad, stable customer base that provides enough converting synergy to support all of the customer requirements of that facility. There has to be more than one reason to acquire or build new locations."

Good Management Teams a Must-Have

Dedicated employees and seasoned, in-place management are also markers for good acquisition targets. Among current industry complaints, the loudest is the inability to find good people to work in leadership roles or, more critically, in the plant.

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— Kim Nelson, president, Royal Containers

"It's very important [for Jamestown Container] to keep existing managers," says Palmeri. "Looking at many of the companies we have purchased over the years, the plants are still open, and the company's employees and managers are still working for us."

Smith adds, "Talent is hard to come by in our industry, and acquiring a company with a strong management team in place not only allows for a smoother transition of the company, but also allows us to grow our internal management team."

"For us, we look for people we get to know over time at industry events like AICC and Fibre Box Association [FBA]," says Bosnik. "We want to know how they would fit our culture, so when a company owner decides to sell and wants to remain part of the management team, we have already done the diligence to make it work."

Kim Nelson is president of Royal Containers in Brampton, Ontario, Canada, whose mission statement is "Building Partnerships in Packaging." Royal has closed three acquisitions in the past 10 years and operates two sheet plants—one in Brampton and the other in London, Ontario. The company is also a shareholder in Tencorr, a sheet feeder in Mississauga, Ontario, and Greenpac Mill in Niagara Falls, N.Y. About the importance of key management in place—especially first-generation owners—she says, "You have to be mindful of a lifetime of blood, sweat, and tears; there is a legacy to deal with in addition to simply buying a business."

Equipment and Capital Assets

As critical as good management is, the corrugated converting business is capital-intensive, and so good equipment that's properly maintained and operating at optimum utilization is key to a company's productivity and profitability. How an independent looks at an acquisition target's equipment mix varies by company and strategic objectives.

Klingher says that while it seems that paper mill capacity can be calculated down to the nearest ounce of paper, converting capacity is elusive. "What we do know is that almost every plant has additional capacity, and this trend is being increased by the speed of the new converting equipment," he says. "If a target company can be acquired and all of its orders moved to the acquirer's facility, the increase in profitability can be exponential."

Palmeri echoes this, saying it has to fit Jamestown's business mix. Palmeri, who has been involved in 13 acquisitions over his 63-year career, tells of plants they acquired and then rolled business into other facilities because the mix of equipment didn't fit the model. "We're always excited to get into a plant to see their equipment lineup to evaluate what's new, what will complement our existing mix in other plants, and what may have more features than what we already have," he says.

"The [Atlantic Packaging] joint venture positioned us well in the Chicago marketplace."

— Jay Carman, president, StandFast Group

Nelson says Royal's acquisition process includes an evaluation of the target's current equipment mix. "We look at what is viable, what fits well, and what needs to be sold," she says. "We are also mindful of moving costs and the wear and tear on a machine that moving imposes."

She adds that a good equipment mix can improve efficiencies in their product mix: "Where do synergies exist? Can we reduce overhead and redundancy across our machine centers?"

Joint Ventures as a Path to Growth

If an outright acquisition isn't a viable option, many independents have turned to joint ventures. All the companies interviewed for this article are involved in some kind of a joint venture, but most common in the industry today is the sheet feeder.

As noted, BCI is part of three sheet feeders—Alliance Sheets, North Star Sheets, and Niagara Sheets—and this has been part of BCI's strategic vision for a number of years. "Twenty years ago, sheet supply was more certain," says Bosnik. "The integrated sheet feeder systems and independent sheet consortiums were popping up everywhere."

He goes on to say that with the industry's increasing consolidation, the supply situation changed, and with it, BCI's outlook. "With consolidation, much of that [sheet] supply has been diverted internally, and the levels of vertical integration are much higher, so we needed to make sure our sheet supply was secure to reliably serve our customers."

Jay Carman, president of StandFast Group in Carol Stream, Ill., also looked to

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— Doug Bosnik, CEO, Buckeye Corrugated Inc.

a joint venture for similar reasons. In 2015, StandFast entered into a joint venture agreement with Atlantic Packaging in Scarborough, Ontario, to form Blackhawk Corrugated. "There are a few reasons we partnered with Atlantic Packaging," says Carman. "First, the joint venture enabled us to secure a long-term source of supply for our sheets and to have a future possibility to be part of a paper mill. Second, because StandFast was landlocked in Addison [Ill.], the joint venture allowed us to move to a larger facility and combine our corrugator and sheet plant under one roof. Finally, the joint venture positioned us well in the Chicago marketplace."

According to Carman, other factors were at play as well, including geography and the reputation of the Atlantic Packaging management team. "It became apparent to us quickly that Atlantic is a large company that is entrepreneurial and has an action bias that suited our culture well," he says.

For Rand-Whitney, a specific market niche, rather than reliability of supply, was the driver in their joint venture with Atlas Global Solutions. "We merged Rand-Whitney with Atlas to create a protective packaging joint venture," says Smith. The UN1F1ED² joint venture, he says, provides "economies of scale" in the competitive protective specialty packaging market.

Parting Advice

In talking to AICC's independent members about their acquisition strategies and asking for any words of advice, we heard similar themes: Do your due diligence, one size does not fit all, know where your company is going, know who you're dealing with, and exercise patience.

"The biggest thing we employ in our acquisitions is patience," says Bosnik.

Do not be afraid of taking a minority position if that position will help your company grow. We have done that very successfully."

— Joseph R. Palmeri, COO, Jamestown Container Cos.

"We're employee-owned; we can be more choosy," he says. "It's our money—if we don't take care of it, we'll lose it."

Palmeri agrees: "This is an area you cannot rush. You need to be sure your due diligence has been done correctly."

Nelson, for her part, cites the uniqueness of each transaction. "Each deal is unique," she says. "Why is the seller selling? Are your values aligned? Do you seek to understand the seller's needs first, then determine your appetite for risk?"

This advice, as well as the comments shared by those interviewed, amplifies the point that growth by acquisition and joint venture is not to be undertaken by the fainthearted. There are unique reasons in every case, and buyers and sellers need to be aware of their primary motivators. "Everybody has a different business model," says Palmeri. "The question I would ask is, 'Does this [acquisition, merger, or joint-venture] company fit your business model and help your supply chain?' Do not be afraid of taking a minority position if that position will help your company grow. We have done that very successfully."

Independents looking to grow have as many opportunities as there are independent converting operations. "It's important to see the bigger opportunity," says Nelson. "In my case, I never want to miss out on an opportunity."■

Steve Young *is AICC's ambassador-at-large. He can be reached at 202-297-0583 or* syoung@aiccbox.org.