

CASE STUDY: CURTIS PAPERS' PORT HURON MILL

In 2003, Sanabe completed the sale of the Port Huron specialty coated paper mill. Key to the sale was the development of an aggressive plan that refocused the mill on its most profitable grades through a reduction in capacity, manpower levels and other fixed costs.

The mill had struggled over previous several years due to:

- Financially challenged parent companies
- Rapidly changing competitive environment
- Currency strengthened imports
- Commodity producers targeted certain high-margin grades
- Weak markets reduced ability to pass through raw material costs

Initial targets for the sale were strategic buyers. Such buyers appeared to be:

- Internally focused given market conditions
- Hesitant to undertake required turnaround

Sanabe worked with management to develop an aggressive but viable turnaround plan that could be implemented by financial/entrepreneurial investors:

- Key element of the plan was the elimination of unprofitable grades and corresponding elimination of excess capacity
- Viability of the plan depended upon eliminating significant fixed costs, particularly workforce
- Plan moved mill to two machine workforce with the aim of producing 30% fewer tons

Management believed that refocused product mix offered the margin cushion to allow the mill to be profitable even under market conditions of pulp pricing outpacing underlying paper demand and high energy costs.

- The configuration of the mill – multiple machines with significant flexibility and overlapping capabilities – increased the alternatives available to management

The new plan attracted significant interest from turnaround investors. In fact, interest was strong enough to allow a successful sale on an extremely expedited basis to Meriturn Partners after initially selected buyer dropped bid late in process.

Investors remained impressed that key customers remained loyal to the mill in the face of both its financial distress and pressure from Port Huron's larger key competitors, Stora Enso Stevens Point and Nexfor/Fraser.

In July 2010, Meriturn announced the sale of the Port Huron mill, renamed Dunn Papers, to Wingate Partners

Key lessons

- Mill profitable since acquisition closed
- Opportunity to improve profitability through focus on key value-added grades (to existing customers) can be an attractive model
- Investor appetite exists for viable mill turnaround plans