

# Keeping the Agility Globally Successful Acquisition of Powerflute

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# How it all started

- In 2004 I retired from Jefferson Smurfit Group after a 40+ year career.
- Dinner with Jouko Jaakkola at the time CEO of M-Real.
- Savon Sellu unwanted asset.
- Visited Mill, impressed with physical state although financial position not too rosy with hostile market conditions.

## How it all Started (2)

- Wrote up Business Plan invited 2 ex colleagues to do the Due Diligence.
- Ian Halliday and Tony Smith.

## **Arial view of the mill site on the shore of Lake Kallavesi**

**SC fluting  
300 000 t/a**

**Employees  
183**



# Powerflute Oyj – 01.01.2005 - what existed?

- Non- core business
- A company unable to earn its WACC and therefore destroying share holders value
- Perception of a twilight product sector
- Aging work force facing the prospect of job loss
- Disillusioned and aging management
- Little or no capex spend
- High cost base and poor financial management
- Poor house keeping and safety standards
- Good but under performing assets
- Stable labour union- no strike in history of plant
- Poor work practices- no production standard for speed
- No fault finding analysis
- No planned maintenance systems - reactive only to breakdown

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# What actions were implemented over the first months:

Structure:

Removal of old management team (with the exception of the Mill Manager, Juha Koukka) followed by:

- Recruitment of new CEO
- Employment of new Sales VP who was motivated to improve sales base
- Work plan developed to reduce labour numbers by 82 people ( 262 to 180)
- Undertaking given by new owners to spend at least depreciation capex
- Introduction of new Finance Director
- Implementation of tight working capital control
- Introduction of bonus system which involved involvement of labour representative

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## What actions were implemented over the first months: (continued)

### Work Practices – Production

- Carried out a de-bottle necking study with Poyry Engineering to determine priorities in out put improvement plan
- Conducted labour reduction negotiations with labour union and gave undertaking on using soft method where possible.
- Introduced standard speed targets for paper machine operators
- Introduce weekly first cut process which high lights operational shortfall to targets
- Introduced failure register for all issues generating more than 2% loss in time or output
- Introduce root cause analysis and action plans for resolution on registered failures

# What actions were implemented over the first months: (continued)

## Work Practices - Maintenance

- Introduced critical equipment analysis
- Conducted failure mode analysis on all identified critical equipment
- Introduced maintenance strategies for all critical equipment i.e. greasing frequency, inspection list, oil change intervals etc.
- Introduced concept of condition monitoring –vibration analysis, oil analysis, thermography etc
- Introduced scheduled planned maintenance shuts
- Conducted root cause analysis and implementation plan on failure register items

# What actions were implemented over the first months: (continued)

## Work Practices – Personnel

- Implementation of improved house keeping – diamond polishing of granite floor in machine hall. Pictures in hall
- Safety training for employees and introduction of near miss reporting
- Created awareness of safe working practises – risk assessments
- Implemented a communications policy which included:
- Monthly meetings with union reps, quarterly feed back sessions and twice annually SON presentations to all employees
- Introduced development training for all key managers and production supervisors
- Introduced problem solving skills training to supervisors and key operators
- Focussed on absenteeism – consultation process after absence

# What actions were implemented over the first months: (continued)

## Work Practices – Financial

- Renegotiated all supply contracts
- Renegotiated supply terms of payment
- Completely rebuilt financial IT systems to separate from previous owner
- Completely rebuilt sales order entry system for separation from previous owner
- Employed purchasing manager to manage supply contracts

# What actions were implemented over the first months: (continued)

## Work Practices – Sales and marketing

- Concentrated in increasing high value European sales tonnage
- Recruited new sales agencies resulting in lower commission costs
- Recruited small internal sales organisation ( 3 people selling 250 000 t's)
- As part of the IT restructuring implemented a completely new sales and order entry system which came in on time, on cost and worked.

# What actions were implemented over the first months: (continued)

## Work Practices – Management

- Motivated management team recruited
- Management incentivised by equity and cash bonuses
- Development of investment program to increase capacity to 300 000 tonnes per annum
- Development of strategic plan for longer term
- Focus on accountability of actions for second line management
- Employed external specialists to assist with programs – capital plan, training, engineering etc ( i.e. improving skill base- you only know what you know)

# Outcomes:

- A highly motivated management team
- A well paid, motivated labour force who value job security
- Production increased by over 21000 tonnes ( 10%)
- Productivity per capita increased by 58% (852 tonnes per head in 2004 versus 1342 tonnes per head at end 2006)
- Working capital on sales improved by 39% (from 21% to 12.8%)
- Added value per capita increased from minus 1145 euro/ person to 65778 euro/person
- Reduced number of ports used from 10 to 4 resulting in lower logistic costs

# Outcomes: (continued)

- Highest ever bonus per employee paid in 2005 despite not actually meeting all financial targets and even higher in 2006
- Maintenance costs reduced by 29% in euro terms and 38% in per tonne basis
- Reduced absenteeism from 8.0% to 3.9%
- A business which significantly returns in excess of its WACC
- A business that is growing in a sector previously seen as twilight
- A business that has returned significant value to its share holders

# Going forward

- Strong team around me who could advise on local issues such as culture, wood, etc.
- Determined from outset to run company as if it were a Public Company.
- Asked two Finns to join the board.
- Juha Niemela and Mikko Heinonen.

## Going forward (continued)

- What of future for Powerflute, Chateau Petrus of flutings.
- Three manufacturers of this grade.
- From an economists point of view product in short supply.
- Impossible to believe anyone in future will build a Nordic Semi Chem Mill. Cost €300M+ for a 300,000 tonne mill giving pre-tax return of only 1-2%.
- Need birch plus permits and would have to squeeze 300,000 tonne into a 900,000 tonne market.
- Couple all these things together and it is our belief that this product should have serious pricing power.

# Orphan Assets

- Practically every major company in the world has such assets, natural part of growing process.
- Natural progression in the lifetime of a corporate entity.

- Recently floated on the AIM list of the London Stock Exchange.
- Expertise of Hannes Snellman & Ohman in Helsinki plus Collins Stewart in London.
- First Finnish Company to do so.
- Access to Capital Markets in order to complete other acquisitions.
- Purchase of Pankakoski, again not really a core business in previous ownership – look forward in time to be able to tell you about its renaissance as well.
- Thank you for listening – I hope you found it useful.