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NEW INVESTMENT VERSUS A COMPETITOR'S RESTART

In such a highly capital-intensive industry like pulp and paper, any new investment must be very well thought out. On top of the capital needed for a new project, a large one needs 12-24 months for implementation, from the time someone realizes there is an opportunity through construction itself. It is easy to understand that a good look into the future is mandatory for the success of a project.

We all take this care. We pay attention to the news, we talk to suppliers, we listen to our people in the field to make sure our new investment won't collide with others and therefore produce an oversupply of what looked to be a good idea. Once we make a decision, we might announce our intentions in hopes that others will think a bit more about matching our investment in the same grade. Well, at least we hope for that.

But what if someone could magically add new volume to

the market before us? Perhaps not "magically," but what if a mill restarts an old line or a company restarts an old mill? Our planning also needs to take this possibility into account. Is it even possible to foresee these variables?

Our platform, FisherSolve Next™, keeps track not only of operating mills, but also of the world's stock of idled assets. We continue to model the cash costs of all mills bigger than 10,000 tons/year even after they have been shut down. We also model projects before they start up using a technology called Virtual Mills, so we can easily analyze the chances that new capacity will come online from an existing source.

In this example, let's consider Tissue in a given European country. We can get Apparent Consumption data available in FisherSolve Next to understand the market, as Figure 1 shows.

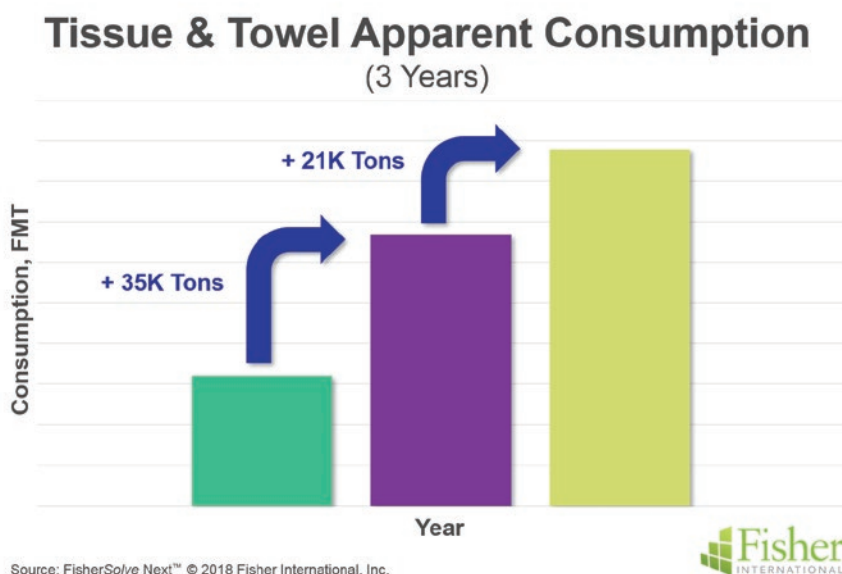
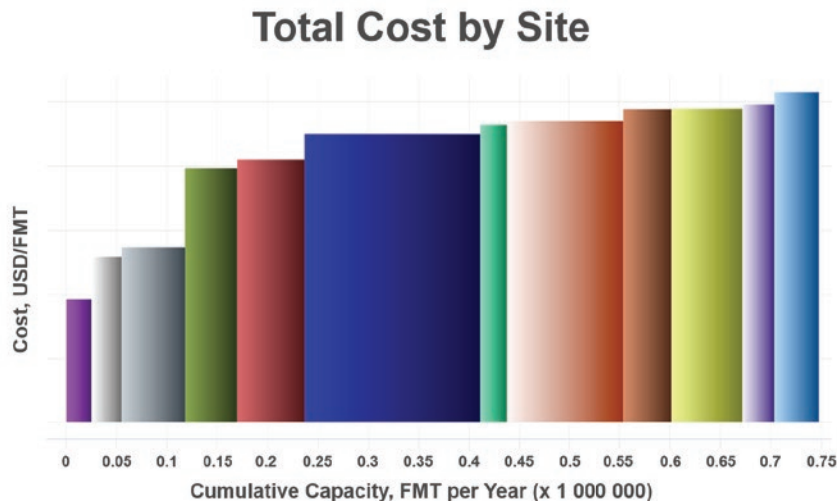


Figure 1



Source: FisherSolve Next™ © 2018 Fisher International, Inc.



Figure 2

The conclusion, based on the trend information for the last 3 years, is that a new machine with 35,000 tons capacity will be required to meet future demand. Further analysis using FisherSolve's Capacity Trends shows that we have no announcement of new capacity for the coming years. So, it looks clear that a new 35,000-ton machine should be built as long as it's competitive, right?

As you can see in Figure 2, a new project with a cash cost below USD 1,000/metric ton would be a great idea, positioning this additional volume between the top 4 in the country.

Again, once we have decided and got the shareholders'

approval to go ahead and build a new line, it will take up to 2 years to have it installed.

Meanwhile, what if the lowest cost mill (idled) showed in Figure 3 is restarted? What if all three idled mills come back and start producing again?

This clearly can jeopardize our investment decision or reduce return on the new investment. That is why we, at Fisher International, believe business intelligence gives the best return on investment: a tiny percentage of a new asset investment provides a clear view of the possibilities that can put your real cash at a risk. ■



Source: FisherSolve Next™ © 2018 Fisher International, Inc.



Figure 3