

Top CEO Pratt sees low-cost 100% recycled-content position, custom print, green energy, robotics as keys

--by grudder@fastmarkets.com

Visy/Pratt Industries Exec chmn Anthony Pratt is leading a recycling resurgence.

His US company Pratt Industries was the fifth largest US boxmaker in 2019 with a 7% market share and an estimated 27.5 billion ft² of shipments. The US boxes are made mostly out of low-cost mixed paper. His five containerboard mills with 1.91 million tons/yr of 100% recycled-content containerboard capacity are nearly fully integrated to 70 Pratt corrugated plants, including 30 sheet plants. Pratt US last year generated more than \$3 billion in sales and \$550 million in EBITDA, in a year of record-low mixed paper pricing at a negative-\$2/ton average and containerboard prices an estimated 175-200% more than the firm's production cost.

It's a company that operates with an against-the-grain model that Pratt started 30 years ago. And Pratt leads it with a determined environmentally-conscious zest along with on-occasion political celebrity glitz. When Pratt Industries started up its new 400,000 tons/yr recycled containerboard machine in Wapakoneta, OH, last September, Pratt hosted President Trump and Australia's Prime Minister Scott Morrison at the ceremony.

Analysts selected Anthony Pratt as Fastmarkets RISI's 2020 North American CEO of the Year. He will be honored at the 35th annual RISI forest products event on Oct. 6. This event will be the

first-ever all-virtual one for the North American conference.

"Pratt is a company that has been innovative, that has taken from what historically was a low-value waste stream and turned it into a value-added product," a veteran Wall Street analyst said.

"The company's competitive position is fabulous," the analyst added.

Pratt, in a recent Zoom video interview from Australia with *PPI Pulp & Paper Week*, stressed the importance of recycled-content packaging to reduce landfill waste, and to reduce carbon dioxide and greenhouse gas emissions, and to be a steward of sustainability. His modus operandi centers on packaging made at a low cost that can out-compete and out-sustain other packaging substrates. He wants to benefit his customers with savings, and be a darling of e-commerce internet business. He's committed now and looking forward to customized digital printing, technological manufacturing advances including robots and someday a "Lights Out Factory," and a fast-paced online ordering platform that would immediately initiate board-and-box manufacturing from a "Star Trek"-like "bridge."

Further, he added, championing recycled-content, that "I can see a day when all paper should be recycled. ... I don't care what anyone will say,

eventually America will be two-thirds recovered paper." US paper and paperboard production today is about 60% virgin and 40% recycled on average, based on estimates.

Pratt claimed that his boxes made of 100% recovered paper feature "printability and performance characteristics that are indistinguishable from virgin."

This starts with a "total recycling system" for processing "poor quality waste" and cleaning this "most inexpensive recovered paper" at the company's material recovery facilities and paper mills, Pratt said. After all, mixed paper, which China banned in 2018, is the dirtiest recovered paper material because of mixing together various papers and other recyclables.

"We can do a print quality on lightweight liners which is fantastic," Pratt said, "and our customers' customers will think they're doing the right thing for the environment while they're saving money."

About 30 years ago when Pratt first set foot in America from his native Australia, he envisaged his 100% recovered paper recycled-content business, despite what he called a "cultural resistance" to using mixed waste in making containerboard. The US market emphasized virgin furnish unbleached kraft linerboard. He claimed some viewed the

Pratt board and boxes in the early days as “schlock.”

“The reason we knew (mixed waste) would work was because we’d done it all before ... in Australia,” he said.

Referring to his overall strategy in America, Pratt noted that “it does require great persistence because America is a very tough market. And being private helps.”

“We did have a long-term vision ... and we stuck to that through thick and thin for 30 years,” he said.

‘Paradigm shift.’ According to Pratt, a “paradigm shift” occurred in the early 1990s when one of his Australian schedulers in America made a box out of 100% mixed paper.

“One day we brought one of our most talented schedulers from Australia and he threw a box on the table and triumphantly said, ‘This box is 100% mixed waste.’ It looked very strong and, from there, we reverse engineered that box so we gradually increased the (old corrugated container) percentage in that box until it met the required American standard,” Pratt said. “Only by starting at 100% mixed waste and moving backward did we achieve a paradigm shift in thinking.”

Pratt’s containerboard furnish mix today is about 60-70% mixed paper and 30-40% OCC, according to industry contacts.

Pratt also credited a “confluence” of events that led to US market acceptance of recycled linerboard. Hurricane Katrina in 2005 flooded New Orleans and put climate change on the front page, and

former Vice President Al Gore’s 2006 movie and book “An Inconvenient Truth” intensified conversation about global warming. Both led to Walmart’s first packaging supplier sustainability scorecard in 2009.

“All of a sudden we went from being shunned, to being embraced by the big customers,” Pratt explained.

Today, while no major US producers exactly copy Pratt’s mixed-waste-furnish-dominated and high-integration model, there is a wave of 100% recycled containerboard capacity projects on tap. Ten of 13 capacity-addition projects with 2.5 million to 2.6 million tons/yr of new capacity were to start up in the USA from 2019 to 2022. About 750,000 tons/yr already started up, according to *P&PW* research.

What sets Pratt apart, he said, is the commitment to recycle paper, and then use that furnish to make a marketable and needed 100% recycled paper. He said most collectors and sellers of recovered paper stop short of “closing the loop” and don’t use the fiber to make a product. Instead, they sell the recovered fiber to other companies or export it.

Pratt, 60, offered anecdotes about Ray Kroc, Rupert Murdoch, Jack Welch, Rudy Giuliani, Ray Anderson of “modular carpet” fame, Tesla, and General Motors (GM) during the hour-long interview. He noted that Tesla’s value today is much more because the company engineers and makes a techno- and digital high-value automobile. Tesla’s net worth is more than GM and Ford Motor’s combined.

Key industry issues include clean energy to create “green manufacturing jobs” and replacing plastic with paper, he said.

For corrugated specifically, Pratt cited boxes as needing to be as lightweight as possible, as long as the “box works.” The company’s Wapakoneta mill is to produce containerboard at an average basis weight of 23-lb. He wants e-commerce boxes that have printing on the inside for a “Happy Birthday” note, as an example. He believes, one step further, in customized boxes with digital printing.

“Our industry needs to find a way to go digital ... or be left behind ... by plastics,” Pratt said.

He also noted that Pratt makes a thermal insulated corrugated box that keeps an item frozen for 60 hours and is a replacement for a box with Styrofoam.

About “clean” energy, Pratt told of his company’s four energy plants that burn mill rejects into electricity that power the manufacturing complex. Three of these energy plants are in Australia and one in Conyers, GA, which was Pratt’s first US mill that opened in 1995 and featured its “milligator” concept of running a board machine next to a corrugator, saving on the cost of transporting the board to a box plant. Almost all US companies today pay to transport their linerboard to a box plant located miles away from their board machines.

For his so-called “Lights Out Factory,” which refers to robots not needing lights, Pratt envisions a plant that would run at a lower energy cost.

With robots partly involved with the operations of mills and plants, Pratt said: “The running times of the machines will be infinite.”

Once the box is made, Pratt said it will have a computer chip in it.

Pratt is a unique winner of the Fastmarkets RISI CEO of the Year award, like possibly no other in the previous 21 years. He’s the richest person in Australia with a net worth of US\$13 billion. He pledged to donate a further \$1 billion Australian dollars before he dies from the Pratt Foundation that his parents started 30 years ago. The funds are mainly for children’s health, indigenous affairs, the arts, and food security through the work of the global food forums in the US and Australia.

A month ago, at a picture shoot, Pratt sat in a large open-faced brown corrugated box. His distinct red hair freshly cut, he wore a classy blue businessman’s suit. In his hand, and for the frame’s focus point, he held a miniature corrugated box with a realistic looking model of himself inside.

This picture in *The Australian* epitomizes how Pratt seems to capture his business dimension and his celebrity. Almost three months into a voracious novel coronavirus pandemic, there was Anthony, as executives, analysts, and colleagues refer to him. This persona is unlike his US containerboard/corrugated CEO peers.

“We like to think big,” he explained, referring to company celebrations over the years that included in the late 1990s the first President Bush, Dr. Ruth, Ray Charles, and Muhammad Ali, through to President Trump recently in Ohio. In saying “big,” Pratt sounded like his father, Richard, who grew Visy after it started in 1948 from a 1,000-pound loan by his aunt Ida Visbord, for whom the company was named. Richard also had a celebrity, vaudevillian-like touch, industry contacts recall. He was known for wooing customers while playing the piano and singing during a celebration for the company’s opening of its Staten Island, NY, mill in 1997 and also at an industry corrugated meeting in Atlanta.

“Anthony is a visionary,” an industry contact said. “He’s not just a person who is a wealthy individual. He works hard. He travels to see customers constantly. As a CEO and owner of the company, he’s very visible in the marketplace. If he says he’s going to do something, he does that and that’s not necessarily the case with every publicly-traded company CEO.”

One industry executive also with a company that makes recycled-content board and corrugated boxes credited Pratt for growing by investment rather than from what has been a hardwired norm the last 20 years in the US pulp

and paper industry: expand by acquisition and by consolidating.

“They’re making paper from [mixed waste],” the executive said.

“They have found a niche: Those guys,” the US executive paused, “they have my respect.”

• The **North American Fastmarkets RISI Forest Products conference** will be conducted virtually on Oct. 5-7 on iVent, a digital event platform enabled to provide delegates with live and on-demand presentations and panel discussions, as well as open and round-table networking features. According to a release from **Euromoney Sr Conference Producer Julia Harty** and **Fastmarkets RISI Global Marketing Mgr, Events, Kimberly Rizzitano**: “Delegates can expect the same high standard of extensive content as in previous years, all accessed from the convenience of their home office.”

• Along with Pratt, other executives committed to appear at the Oct. 5-7 North American conference are **LP Building Solutions** CEO Brad Southern who was the 2019 North American CEO of the Year; **Graphic Packaging** CEO Michael Doss; **American Forest and Paper Association** pres/CEO Heidi Brock; **Canfor** CEO Don Kayne; **Clearwater** CEO Arsen Kitch; and **Sonoco** CEO R. Howard Coker.

RISI North American CEO of the year -- 1999-2020

	CEO	Company
2020	Anthony Pratt	Visy/Pratt Industries
2019	Brad Southern	LP Building Solutions
2018	Steve Voorhees	WestRock
2017	Mark Kowlzan	PCA
2016	Doyle Simons	Weyerhaeuser
2015	David Scheible	Graphic Packaging
2014	John Faraci	International Paper
2013	Jim Hannan	Georgia-Pacific
2012	Richard Garneau	Resolute Forest Products
2011	Jim Rubright	RockTenn
2010	John Williams	Domtar
2009	Doyle Simons	Temple-Inland
2008	Jim Rubright	RockTenn
2007	Raymond Royer	Domtar
2006	John Faraci	International Paper
2005	A.D. "Pete" Correll	Georgia-Pacific
2004	Paul Stecko	PCA
2003	Raymond Royer	Domtar
2002	Steve Rogel	Weyerhaeuser
2001	Steve Rogel	Weyerhaeuser
2000	John Dillon	International Paper
1999	Michael WJ Smurfit	Jefferson Smurfit

Source: PPI Pulp & Paper Week, analysts.

Anthony Pratt's four important rules for business

- 1 Look after your best customers.
- 2 Look after your best people.
- 3 Revenues must exceed expenses.
- 4 Collect your debt.

Source: These four were provided to Anthony by his father, Richard.
