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The Role of Private Equity in the Decline of a Major Forest Products Company: A Case Study

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Financial analysis provided by Umachander Balakumar and Divya Chandra, Center for Sustainable Business

December 2021

A BETTER WORLD THROUGH BETTER BUSINESS

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NYU Stern CSB would like to thank the F.B. Heron Foundation and the U.S. Endowment for Forests and Communities for their support of this research.

How controlling ownership changes from family to private equity, the tension between short–term profitability and long-term sustainability, and inertia in the face of evolving market dynamics, contributed to the closure of the mill

PREAMBLE

Throughout the development and growth of the present-day pulp and paper industry. periodic ownership changes and acquisitions have been a certainty for the mills and communities in which they are based.

Since the 1980s, and prompted by the intentional easing of antitrust enforcement, the rate of pulp and paper mill ownership changes, mergers and acquisitions has occurred at an intense pace. Between 1978 and 1992, about 40 percent of the 819 paper and paperboard mills operating in the United States were involved in at least one merger.[1] Subsequently, for the last several decades, the US paper industry has been undergoing change in numerous areas including employment, ownership, production, acquisitions, mergers, and mill closures or downsizings.

By the turn of the millennium, simultaneous difficulties were impacting the US pulp and paper industry including:

- The loss of foreign markets due to a strong dollar and increased imports that were less expensive relative to domestically produced goods;
- The 2001 recession;
- Stronger competition from countries such as Brazil, Chile, and Indonesia that were building modern pulp facilities and benefiting from faster-growing trees and lower labor costs;
- Fundamental changes in paper consumption, especially an abrupt change in demand for graphic papers due to competition from digital media, paper conservation actions by businesses and consumers, and changes in reading habits. The most significant decline, in terms of physical production, value and capacity, occurred in the newsprint industry;
- Severe operating and price fluctuations.

These concurrent disruptions required that pulp and paper companies and their boards explored different routes to remain viable and competitive including consolidations and the re-visiting of business models.

An approach popular at the time was the divestment of non-core pulp and paper business units of large paper manufacturing companies to private equity firms. We were particularly interested in undertaking a case study that examined the consequences of such an approach on a pulp and paper mill establishment in Wisconsin Rapids, Wisconsin. The work that follows provides a deep dive case study of ownership transitions, leadership actions and the changing markets for the products made at the Wisconsin Rapids mill. We also contrast the outcome for the Wisconsin Rapids mill with another private equity transaction and the formation of another Wisconsin company, Expera Specialty Solutions.

This study is relevant to a broader analysis underway and that will be reported separately around community response and change and the prospective role that philanthropy might play in place-based impact investing.

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[1] Pesendorfer, M. (2003) Horizontal mergers in the paper industry, RAND Journal of Economics, **34**, 495–515.

EXECUTIVE SUMMARY

The purpose of this study is to catalog and analyze the ownership history of a pulp and paper mill in Wisconsin Rapids that culminated in its idling by its current owner, Verso Corporation, at the end of July 2020. The study is focused in particular on the last twenty-five years when the mill transitioned through four different owners, including two private equity owners, and paper use on the global scale changed dramatically and, for some applications, irreversibly.

The study explores external and internal factors and decisions that impacted the sustainability of the mill and calls out key indicators related to ownership and management decisions that may have signaled the longevity of pulp and paper production at the mill to be at risk. We hope the lessons learned will be of interest to communities experiencing ownership changes with local employers as well as civil society, regulators, and investors.

The pulp and paper mill in Wisconsin Rapids, Wisconsin has been a feature and place of work for the community since it was established in 1904. It soon became the flagship facility of the Mead family-controlled, publicly listed company, Consolidated Papers Inc., which built, acquired and operated a number of pulp and paper mills and converting facilities in the United States until the company was sold to the Finland-headquartered forest products conglomerate, Stora Enso Oyj, in 2000.

In the subsequent 20 years, the facility changed ownership twice more, first to NewPage and then to Verso Corporation. NewPage and Verso Corporation each underwent chapter 11 bankruptcy proceedings and several business downsizings. Verso Corporation idled the mill on 31 July 2020. It has since remained in an idled state while one entity, Consolidated Cooperative, has signaled its intention to buy the mill and another, Atlas Holdings, has made an unsolicited offer to acquire Verso outright through a stock ownership transaction. At the time of writing Verso Corporation said it is talking with its financial and legal advisors to determine what would be in the best interest of Verso Corporation and its stockholders, regarding the Atlas offer.

Within an approximately three-decade period comprising the last ten years of ownership by Consolidated Papers, and the three subsequent ownership transitions, several key trends and factors impacted the fortunes of the mill.

The first was global growth in advertising and print media comprising commercial printing, magazines, catalogs, direct mailings, and newspaper inserts. Demand and capacity grew rapidly across the globe, leading to imports into the United States. Significant capital investments made at the paper mill by both Consolidated Papers and Stora Enso were a direct response to this boom in demand for coated freesheet paper. These investments positioned the Wisconsin Rapids pulp and paper mill and Consolidated Papers as one of the world's major forces for the production of coated freesheet.

Second was an inflection point in demand for printing and publication grades that occurred at a peak of consumption in 1999. Since the new millennium, demand for these printing and publication grades has been in a well-documented secular decline. The emergence of the internet and electronic devices has been a driving force of non-print/electronic media consumption and the rate of decline of print media has been precipitous on at least three occasions: the aftermath of 9/11, the financial crisis of 2008 and most recently the onset and duration of the COVID-19 pandemic.

Third was the peak of the leveraged buyout era and the boom in private equity activity in the mid-2000s. The private equity company Cerberus Capital Management established NewPage in 2005 and the private equity company Apollo Global Management established Verso Corporation in 2006. This era marked a transition of mill ownership from formerly strategic, long-lived paper industry players to new entities created solely for the purpose of acquiring pulp and paper making assets that were being divested by their owners. In the case of NewPage, MeadWestvaco and in the case of Verso Paper, International Paper.

It is clear from the start that the decline in demand for the paper grades manufactured by the Wisconsin Rapids mill came at the same time as several transitions in mill ownership. The purpose of this report is to document and critique key events and factors in the lifecycle of the Wisconsin Rapids pulp and paper mill and to understand how those events and factors may have provided signals that the future sustainability of the mill might be at stake. The report was compiled from a review of publicly available documents including SEC filings, news reports and articles, and company press releases. Additionally, interviews were conducted with paper industry professionals including former executives and employees, and consultants within Wisconsin's paper making industry. Further input was received from academics, as well as union and public officials. The report examines the role the private equity business models of the controlling owners played in the downturn of the mill's fortunes.

The examination reveals a number of key points as follows. Consolidated Papers exited the market at the peak of consumption of printing and publication grades and had made a number of acquisitions in its final decade that would have made it an attractive acquisition prospect. It had avoided accumulating any significant debt. Stora Enso bought Consolidated Papers for $4.2 billion, which included a substantial amount of goodwill. A significant portion of the purchase price was later written off in impairment charges. Stora Enso continued to invest in printing and publication grades during the 2000s even as certain industry executives and consultants were forecasting significant declines in print publication and advertising markets as the internet and electronic forms of media began to take hold.

NewPage and Verso Corporation arose from the private equity boom of the mid 2000s. A number of paper mill assets were placed on the market at that time as established industry players undertook strategic reviews and focused on core competencies, divesting assets that no longer fit strategic goals. It remains a matter of debate as to whether those divested assets could be deemed 'distressed' at the time of divestment. Certainly, mills acquired by Verso (Bucksport and Jay in Maine, Quinnesec, Michigan, and Sartell, Minnesota) were among some of the most efficient and low-cost coated-paper facilities in North America. Early leadership of both NewPage and Verso came from established paper making companies but the private equity ownership structure prescribed an entirely different, short-term, business model, prioritizing short-term financial performance improvement and then selling the business through an IPO.

The transition from proximate to remote ownership of the Wisconsin Rapids mill contributed to the decline of company involvement and engagement in the community and an adaptation of company values away from stakeholders and towards shareholders. This included large local job losses as corporate functions were moved away from Wisconsin Rapids including accounting, legal services, the executive suite and customer service.

Leadership turnover at NewPage and Verso Corporation occurred frequently, indicative of disagreement and variance in opinion of leadership, board members and shareholders. A significant number of board members at Verso Corporation did not have paper-manufacturing experience but rather came from private equity backgrounds. The directors' inclinations appeared to favor short-term cash generation strategies rather than strategic and long-term corporate sustainability. NewPage and, in particular Verso Corporation, de-emphasized the role of research and development in their businesses, although this was common practice across the sector at this time. While Verso Corporation announced intended capital investments in 2017, actual capital investments on a facility basis plummeted to its lowest level in the history of the company. In the meantime, competitor companies such as SAPPI were taking steps and investing in conversions of paper machines to exit the declining printing and publication markets to focus on new opportunities for growth.

This examination has led to the identification of key indicators of potential instability that could be used by communities so as not to be caught unaware but rather anticipate, respond and rally to mitigate significant economic and social turmoil caused by such events.

Key indicators include:

- repeated changes of ownership;
- frequent changes of leadership;
- unconventional alignment of board member expertise with the company's core competencies;
- recapitalization actions to pay shareholder dividends;
- proxy actions by activist shareholders;
- high levels of indebtedness;
- pursuing a business strategy that significantly deviates from competitors and other companies in a peer group;
- use of chapter 11 bankruptcy as a re-organization tool;
- leadership compensation and performance benefits that incentivize short term cash generation; and
- withdrawal of engagement with the community in which the entity operates.

Additionally, for capital intensive, manufacturing businesses the following are noted:

- de-emphasizing the role of, and resources for, research and development activities;
- making insufficient capital expenditures to adequately maintain and/or reposition key assets to align with trends in the market place; and
- lack of long-term commitments necessary for the development of new products even without capital expenditure.

None of these indicators in their own right necessarily imply that a significant business decision and its consequences are imminent but when elements are combined, it is likely the probability of a significant event will occur. We offer these indicators as markers that may give community stakeholders the foresight and knowledge to engage, interact, and plan in a way that is most meaningful to their communities and the employers present in them.

Finally, the study presents a counterpoint to the Wisconsin Rapids experience with an analysis of another Wisconsin-based agglomeration of paper mills that occurred in 2013, with the formation of Expera Specialty solutions by the private equity company KPS Capital Partners. KPS acquired the specialty paper mills of two established paper companies, installed and supported industry-relevant and experienced leadership, made some capital investments and positioned the new company as the largest specialty paper company in North America. While KPS Capital Partners paid itself significant dividends, it successfully oversaw the implementation of operational and asset efficiencies, and improved cash flow. Over a five-year period, KPS Capital Partners and Expera's leadership team positioned the company for acquisition. It was purchased by Finland-based Ahlstrom-Munksjö in 2018 for $615 million. KPS Capital Partners, reportedly more than tripled the value of its initial investment and strengthened the prospects of four mills in four northern Wisconsin communities. It is notable that the sale price of $615 million represents a much smaller valuation than Verso Corporation reflecting the much smaller scale of the operation. Additionally, Expera was not faced with a huge decline in demand but worked to increase market development with new products.

The now one-year-long idled status of the Wisconsin Rapids mill cannot be laid solely at the door of private equity companies. Global changes in the long-term demand for printing and publication papers created conditions such that the production output of the mill was in jeopardy. A significant mis-read of market directions almost a quarter of a century ago set a problematic course for the mill. However, in the intervening years, no subsequent owners executed a successful course correction. It is clear that the inability or unwillingness to invest in order to course correct is an inherent aspect of the business models of the private equity owners involved in both NewPage and Verso. These owners did not invest for growth or for the long-term future of their portfolio companies. Rather they burdened those companies with debt, effectively eliminating the availability of cash for investment in the substantial capital expenditures necessary to re-purpose a colossal paper machine to produce other paper grades that would meet changing market demands. Furthermore, management instability and continuing mis-reads of market conditions further served to exacerbate the precarious status of the Wisconsin Rapids mill.

1. HISTORY OF OWNERSHIP

We have reviewed the relevant management decisions, external market conditions, capital allocations and other key metrics during each phase of ownership in order to understand what drove the deterioration of the company's health and ultimately the idling of the Wisconsin Rapids mill.

1.1. Chronology and key events during each ownership era

It is important to note that throughout the ownership transitions that occurred for the mill in the past quarter century, it comprised just one of a number of pulp and paper mills owned by each of those companies. Figure 1 provides an overview of the mill assets acquired by each company at the time of the ownership transition. It also indicates the duration of ownership.

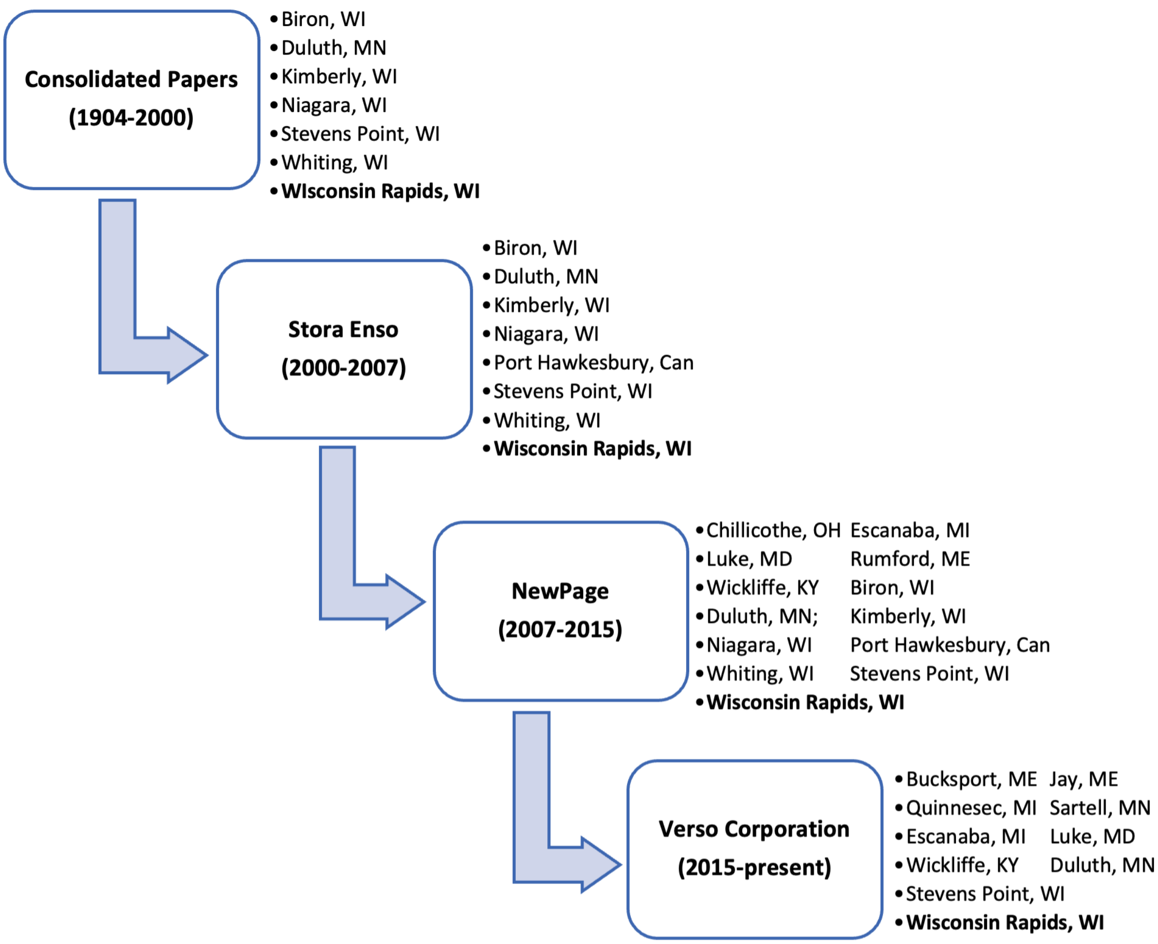

Figure 1. An overview of the pulp and paper mill locations that transitioned with mill ownership, the companies involved, and the period of ownership.

1.2. The Consolidated Papers years: A long-term, value-creation focus wins

> Consolidated Papers first created and then dominated the market for coated commercial printing papers with major innovations in technology during its almost 100-year existence. Its strategic focus and accompanying strategic capital investments in paper applications, research and development, long term career paths for employees and customer service, positioned it as an attractive acquisition target at the end of the last millennium.

The Wisconsin Rapids pulp and paper mill was the first mill built within the Consolidated Papers portfolio. Consolidated emerged as a family run business in the late 1800s. In 1935, Consolidated produced the first coated paper that was manufactured in a single high-speed operation using the Consolidated-Massey coater. Coated papers made Consolidated Papers, and the Wisconsin Rapids mill, famous and became the major focus of the company's operations for decades and of the Wisconsin Rapids mill into the twenty-first century.

The development of coated paper is important in the context of the current status of the Wisconsin Rapids mill. The process for creating coated paper in a continuous manner transformed the burgeoning advertising and publishing industries of the early and mid-twentieth century. Paper could be coated with glossy, semi-glossy or matte finishes. Coated paper was, and continues to be, used in various applications such as commercial printing, catalogs, brochures, corporate annual reports, direct mailings, newspaper inserts, security papers, magazines and other advertising materials. Its great quality is that it provides an ideal surface for printing sharp, photographic-quality images.

Throughout the twentieth century, the Wisconsin Rapids mill was one of the world's largest manufacturers of coated groundwood-free papers.

Consolidated expanded its production capacity by constructing new mills as well as acquiring others. It expanded the scope of its product offerings to include so-called specialty grades of paper – tailor-made paper grades manufactured to customer specifications.

In 1959, the company created a Research and Development division and built a research and development facility in Biron Wisconsin which employed over 100 people at its peak.

Toward the end of the 1960s, construction began on a $37 million kraft pulp mill and power complex that launched a new Kraft Division. The next decade reflected increased environmental as well as market considerations as the company began investing capital into modifications and expansions. In 1970 and 1971, the company invested over $1 million into primary wastewater treatment plants, and in 1972 announced plans for an $8.6 million treatment plant to serve the Wisconsin Rapids, Biron, and Kraft Divisions. A pollution abatement program was completed that same year. In 1973, construction began on a $2.7 million sheet converting plant in Wisconsin. The following year, Consolidated began a $12.8 million modification program at its Kraft Division to increase pulp capacity by 26,000 tons a year. In 1975, the company launched a $6 million boiler plant to burn coal and bark. Consolidated then broke ground for a $4 million secondary treatment plant.

Consolidated continued to innovate coated paper production in the 1970s by introducing the short-dwell-time-applicator into its production process which was the prototype for current state-of-the-art lightweight coated paper production.

In the 1980s, Consolidated's earnings benefited from the increase in direct-mail advertising and color inserts in newspapers, which made use of the company's specialized lightweight coated papers. It constructed a new office building in Wisconsin Rapids and celebrated its forestry program's fiftieth year.

In response to increasing demand, Consolidated began a multimillion-dollar expansion program in 1981 to increase capacity for coated papers by 24%. The following year, it began a $17 million Wisconsin Rapids Division expansion. By the mid-1980s, the company was considered the world's largest producer of coated papers. Additionally, the company was producing lightweight, coated specialty papers for packaging and labeling, as well as corrugated containers and paperboard products.

Also in the 1980s, the company began a program to recycle sludge material from its Water Quality Center. Sludge was spread on commercial farmland as a combination fertilizer/soil amendment. This saved on landfill costs while improving soil fertility. The sludge and its application were the result of a six-year research program conducted by Consolidated.

In 1984, focus turned to the Biron Division with an expansion investment (funded internally) of $215 million. The result was a state-of-the-art coating plant comprising a thermomechanical pulp mill and world class light-weight coated paper machine.

In 1987, Consolidated announced a $96.7 million capital expenditure program. This included a further $46 million expansion of pulp production at the Kraft Division to support Biron. Another $22 million was slated for improvements of the production of heavier coated free-sheet papers.

Additional expansion plans were announced for the Wisconsin Rapids mill in 1989 to produce top quality coated paper for annual reports and high-grade brochures. A new paper machine was constructed and the converting plant was expanded. Within a couple of decades, Wisconsin Rapids had twice doubled its production capacity for coated free sheet.

That same year the Paperboard Products Division added a seven-color press to its equipment, allowing it to produce high-quality, multicolor folding cartons. Diversifications such as these helped protect Consolidated from the rumblings in the industry caused by the recession as well as the fact that paper mills everywhere had been running near capacity and fear of a shortage was setting in. Coated paper was a more profitable and steady business than commodity paper and so the company's operating margin remained more than 20% in eight out of ten years between 1979 and 1989.

Until the 1990s, Consolidated had generally avoided the accumulation of debt, opting instead to finance capital spending out of its own cash flow. However, all of the intensive expansion projects around this time resulted in a considerable long-term debt for the first time in Consolidated's history. In the early 1990s Consolidated generated sufficient cash to subtract from its debts, while still making significant capital expenditures to keep its plants current and competitive. Nevertheless, the company did feel the effects of the recession.

Consolidated was ahead of the landfill problems that plagued many industries in the late 1980s and early 1990s. The company's solid waste management program worked closely with consultants, regulatory agencies, and the community to develop a plan that included landfills on company-owned land as near to treatment plants as possible. Water quality and water renewal center landfills were also located on land near the treatment plants, which allowed Consolidated to keep a close watch on the operations Between 1991 and 1993, the company spent $34.4 million in its Kraft Division for environmental improvements to comply with environmental regulations. Furthermore, the increased demand for recycled fiber content in Consolidated's papers introduced costly variables, as contamination of recycled fiber was a problem, and producing coated papers of different weights with recycled pulp was a technological challenge.

In 1990, the development and expansion of wetland mitigation sites around these water quality and water renewal centers began. Consolidated also joined with the Wisconsin Department of Natural Resources to enhance wildlife management and habitat development on company-owned land adjacent to the Mead Wildlife Area. Company forestlands were managed as a source of pulpwood for papermaking, as well as a source of enjoyment to the public through hiking, hunting, and other recreation.

As the paper industry recovered during the robust economy of the mid-1990s, Consolidated began expanding again. The Stevens Point mill undertook a $166 million, two-year expansion to install a paper machine capable of producing 64,000 tons annually of lightweight coated specialty paper used in food and consumer product packaging and labeling, gift wrap, bar-code labels, and pressure-sensitive release papers. A second new paper machine was built in 1996.

George W. Mead II stepped down from the position of CEO in October 1993 while remaining chairperson. President Patrick F. Brennan succeeded Mead as CEO. Brennan had joined the company in 1963 and had moved through various leadership positions to become president and chief operating officer in 1988. He was the first Consolidated chief executive to come from outside the Mead family.

In addition to making capital expenditures, Consolidated also began making acquisitions. In July 1995 the company acquired Niagara of Wisconsin Paper Corporation, maker of coated groundwood publication papers (which became the Niagara Division); and two Duluth, Minnesota-based companies: Lake Superior Paper Industries, maker of supercalendered paper, and Superior Recycled Fiber Industries, producer of pulp made from de-inked waste office paper.

Brennan retired at the end of 1995, a year in which the company set records in earnings ($229.2 million) and sales ($1.58 billion). During his tenure, Consolidated had surpassed the $1 billion revenue mark for the first time in 1994. Gorton M. Evans took over as president and CEO and led Consolidated through an even larger acquisition, that of Repap USA, Inc., which was purchased in October 1997 from Montreal-based Repap Enterprises Inc. for $258 million in cash and $419 million in assumed debt. The Repap USA operations included a mill in Kimberly, Wisconsin, located about 100 miles east of Wisconsin Rapids, with three machines that produced coated printing papers, converting plant for coated sheets, a recycled pulp mill and a small ground wood mill. The addition of what became known as Inter Lake Papers, Inc. increased Consolidated's share of the U.S. coated printing paper market from 15 to 20%.

External trade factors began to impact Consolidated in earnest in the late 1990s. Consolidated saw its earnings fall due to rising pulp costs, global overcapacity as mills in Europe and China increased production and new mills were constructed, as well as increased competition from foreign companies able to make inroads into the U.S. market because of the strength of the dollar.

The global coated paper industry struggled at this time as advertising in magazines plunged with the sustained economic downturn. Gorton Evans began to restructure the company. The period coincided with a realization of too much redundancy in the company and workforce, that other companies were becoming leaner, more productive and that Consolidated no longer existed in a bubble.

In 1999, Consolidated initiated a two-year cost-cutting exercise aimed at reducing annual operating expenses by $100 million. In addition to the implementation of various operating efficiency initiatives, the company also announced the layoff of 700 workers in mid-2000. Consolidated also disposed of one of its non-coated-paper operations – the corrugated packaging subsidiary Castle Rock Container, which was sold to St. Laurent Paperboard Inc. in May 1999.

The global consolidation in the paper industry that took hold at the beginning of the new millennium was creating ever more intense pressure on Consolidated and other smaller industry players. According to sources employed by Consolidated Papers at the time and familiar with the matter, a number of unnamed paper companies were interested in acquiring Consolidated Papers. In 2000, it was announced that the company had agreed to be acquired by one of the largest forest products companies in the world, the Finnish-Swedish company, Stora Enso Oyj, ending over a century of independence for Consolidated.

1.3. The Stora Enso years: Overvalued assets combined with negative market conditions

> Stora Enso over-paid to purchase Consolidated Papers to become at once a major player in the North American coated paper market and the world's biggest coated paper manufacturer. In a fundamental mis-read of trends in commercial printing markets, it strengthened and increased its investments in coated paper production in North America at the same time as dramatically declining market conditions were exacerbated by events such as 9/11 and the prevalence of the internet and electronic devices.

In 2000, Stora Enso acquired Consolidated Papers, for $4.8 billion. The cash-and-stock transaction, which was completed in August 2000, established Stora Enso as the world's biggest coated paper manufacturer. It also provided the company with its first significant presence in the North American market, the largest paper market in the world.

The year 2000 and the first half of 2001 were reasonably good years for Stora Enso. However, in the second half, the dot-com bubble burst, 9/11 occurred and the global economy collapsed into recession between 2001 and 2003. The result was weakening paper demand and falling prices. At first, Stora Enso managed to gain market share, but with lower prices, profitability was severely hit. In 2001 and 2002, cash flows were still positive, but earnings' margins were negative due to the heavy burden caused by the high purchasing price of Consolidated Papers. Stora Enso had significant goodwill on its books.

During 2001–2002, Stora Enso concentrated on integrating sales and marketing forces in North America and rationalizing production. As prices dropped even further, and no signs of improvement were in sight, Stora Enso wrote off $1.2 billion of its North American book value as impairment charges. This also marked the start of a major restructuring of Stora Enso North America, which included significant workforce reductions. Despite forecasted declines in the demand for printing, advertising and publication grades, with real declines occurring during the first years of the new millennium, Stora Enso proceeded to invest in coated paper product for those very markets.

In the short term, these investments resulted in a lot of down time and one-off restructuring costs, which caused cash flow to be negative in 2003 and 2004. By 2005, some Stora Enso North America managers believed that the efforts were beginning to yield positive results as the company began to produce positive cashflows from that point onwards. However, Stora Enso's decision to tenaciously invest in coated paper production represents a mis-read of market conditions and subsequent demand for coated paper that set a difficult course for the Wisconsin Rapids mill.

In 2007, Stora Enso CEO, Jukka Harmala retired and the new CEO, Jouko Karvinen initiated a review of Stora Enso's North America operations. The North American business was first re-organized as a separate business unit and, five months later, the decision to sell the North American assets was taken. At the time, the Wall Street Journal[2] quoted Karvinen as saying, "There have been some tough choices, and we have had to choose the battles we're going to win."

In a 2010 report,[3] Antti Koulumies reported that in interviews conducted with Stora Enso management involved in the initial acquisition, most had disagreed with the decision to divest. In 2007, product pricing was good, and while the company's earnings were still close to zero, margins were at even better levels than at the time of acquisition. According to an interviewee who had previously worked in the North America management team, the company would have required a couple of years of aggressive cost reduction for the results of the major restructuring work ongoing since 2002 to start showing. The company was, according to those interviewees, in very good shape for American standards, and could have been able to compete well with its North America competitors.

On the other hand, 2007 also marked the onset of the financial market crisis and the Great Recession. Koulumies reasoned that selling the North America assets in 2007 was a sensible action,

[2] Carlstrom, J. (2007) Stora Enso to sell North American papers business, Wall Street Journal, September 22. Available at: https://www.wsj.com/articles/SB119036083005134917 (Accessed: 9/12/21).

[3] Koulumies, A. (2010) The assumptions behind an acquisition: case Stora Enso-Consolidated Papers, Report, Aalto University.

as it improved the company's overall financial position.

Over the seven-year period of Stora Enso ownership, some 2,650 job losses were recorded at Stora Enso's North America facilities. Notably, Stora Enso did not close any of its North American mills which is reflective of the strategic vision Stora Enso had. Its goal had been to establish a foothold in the North American market and in doing so, it had sought to modernize both its human resource processes and its production assets.

Stora Enso's decision to exit the North American market once again created uncertainty for Wisconsin Rapids and the mill's employees. The announcement in 2007 that NewPage would acquire Stora Enso's assets, according to Wisconsin Rapids mayor, Mary Jo Carson, was greeted with relief by the community. The relief was that ownership was transitioning to a United States domiciled entity albeit with a very short record of owning, managing and running paper mills.

1.4. The NewPage years: Leverage, layoffs, mill divestment and idling, bankruptcy

> NewPage acquired Stora Enso's North American assets in a leveraged buy-out as the decline in demand for commercial printing papers continued and at the onset of the Great Recession. Substantial debt and declining revenues left it struggling to make even interest payments let alone strategic investments. While it laid off workers, idled paper machines and closed mills, it failed to avoid bankruptcy proceedings. Upon emerging from bankruptcy it became a takeover target.

1.4.1. The origin of NewPage

In 2007 at the time of the Stora Enso acquisition, NewPage was a very new company. It had been established by Cerberus Capital Management, near the peak of the private equity boom in 2005 to acquire the printing and writing business of MeadWestvaco in a $2.3 billion leveraged buyout, with Cerberus investing about $200 million. The remainder of the deal was financed by approximately $1.8 billion in high yield bonds and $300 million of equity. The firm sold approximately $300 million of the company's assets shortly after completing the deal. The new entity originally constituted five facilities in Kentucky, Maine, Maryland, Michigan, and Ohio.

1.4.2. Acquisition of Stora Enso North America

In December 2007, Cerberus completed the purchase of Stora Enso's North America operations for $2.52 billion, merging the company with NewPage. Cerberus paid $1.5 billion in cash, $200 million in vendor notes and 19.9% or $370 million of shares in the new company, which assumed an additional $450 million of debt. In December, 2007, NewPage opened a $500 million senior secured revolving credit facility and a $1.6 billion senior secured term loan credit facility with Goldman Sachs to finance the deal. The total indebtedness of NewPage following the acquisition was $2,977 million.

Shortly after, Cerberus began closing its mills starting in January 2008, when it announced the closure of its Niagara, Wisconsin mill. Then in July 2008, it announced it would close its Kimberly, Wisconsin mill with the loss of 475 jobs.

1.4.2.1. Controversy over the Kimberly mill

In an October 2008 article,[4] USW Local 2-9 President Andy Nirschl speculated that Cerberus essentially wanted to raise paper prices by reducing capacity, regardless of the human cost to 600 workers and their families.

“This wasn’t like the usual scenario we’ve seen again and again,” said Nirschl, “where a corporation moves jobs to Mexico or China to increase their profits by paying less than a dollar an hour. This was a case of a corporation taking a productive, profitable plant and closing it, refusing to sell it to anyone.” Nirschl stated that documents presented at “business condition” meetings between the union and Stora Enso revealed that the paper mill earned a profit of $66 million in 2007. According to NewPage spokesperson Shawn Hall, "demand for our products is off significantly due to the poor economy – down roughly 12% in the first half of the year." The company was also facing "rapidly rising, volatile inflationary costs for energy, raw material and transportation" and competition with "low-priced imported paper." NewPage's 30 July 2008 statement[5] announcing the Kimberly plant shutdown also cited the absence of an onsite pulp mill: "While the Kimberly mill has first-class paper machines and is operated by an excellent workforce, it doesn't have a pulp mill to support the paper operations." The union suggested that by reducing the coated-paper supply, NewPage could drive up the prices its other plants charged.

1.4.3. The NewPage years post the Stora Enso acquisition

For two years, Cerberus pursued an IPO of NewPage, appointing Goldman Sachs to attempt an $805 million transaction. This approach was characteristic of most of Cerberus’s investments at the time in which it tried to fix finances or streamline operations, and profits by selling off all or part of the companies and collecting fees for its management. NewPage abandoned its IPO efforts in 2010.

SEC filings associated with the IPO effort reveal the indebtedness of NewPage and enable calculations of DEBT to EBITDA ratios for the years 2007–2013. These ratios (Table 1) demonstrate the highly indebted nature of NewPage.

	2007	2008	2009	2010	2011	2012	2013	2014
Debt to equity	4.44	18.47	216.43	-4.81	-0.21	0.60	0.47	N/A
Debt to EBITDA	10.90	6.08	15.15	-287.00	1.81	2.58	2.15	N/A

Table 1. Debt to equity and debt to EBITDA ratios calculated from NewPage’s SEC filings 2007–2014
Benchmarks: debt to equity around 1; debt to EBITDA: 3 acceptable; 4.5–5, over-leveraged.

SEC filings and other announcements reveal the frequent turnover of leadership in the C-suite during 2005–2010. A number of CEOs were in post for less than one year. Such short tenure may be indicative of board and investor dissatisfaction with leadership and symptomatic of lack of direction and stability for the business. Table 2 lists the tenure of NewPage CEOs from its inception to the point of its acquisition by Verso. Highlighted in red are those tenures that were less than one year. NewPage announced a CEO search following Tom Curley’s departure which indicates his departure was unexpected and that a replacement was not ready and waiting.

[4] Bybee, R. (2009) Pulp Friction, In These Times, January 7. Available at: https://inthesetimes.com/article/pulp-friction (Accessed 9/12/21).

[5] [1] NewPage. (2008) NewPage closes Kimberly, Wisconsin facility [press release] July 30.

CEO	From	To
Peter H Vogel	May 2005	28 February 2006 (resigned)
Mark Suwyn (interim)	1 March 2006	16 April 2006
Mark Suwyn	16 April 2006	March 2009
Richard Willett	March 2009	18 January 2010 (resigned)
Mark Suwyn (interim)	18 January 2010	10 February 2010
Tom Curley	10 February 2010	15 June 2010 (resigned)
George Martin	August 2010	Till acquisition by Verso Corporation

Table 2. NewPage CEOs since the company's formation till its acquisition by Verso Corporation. Entries highlighted in red are CEOs that were in place for less than one year.

NewPage struggled after the Cerberus acquisition. In July 2010, it was reported that NewPage had $3.1 billion in debt outstanding with two bonds due in May 2012 worth about $1 billion face-value. In May 2011, the bonds backing the manufacturer suffered after the company reported a first-quarter loss and NewPage hired restructuring advisers. Apollo Global Management, Avenue Capital Group and other investors held more than half of NewPage's $805 million second-lien notes. The notes fell more than 20% after the company posted an $88 million quarterly loss, compared with a net loss of $175 million in the first quarter a year earlier. They were trading at less than half of their face value. The positions in NewPage's debt gave Apollo and Avenue a significant negotiating position with Cerberus over how to restructure the paper maker.

On 7 June 2011, Cerberus announced that it had reached an agreement to sell its Kimberly, Wisconsin paper mill to AIM Demolition US LLC. Ultimately, NewPage's negative cash flow of more than a year could not support its $3 billion debt obligation and it filed for bankruptcy protection on 7 September 2011. This was the largest chapter 11 filing of the year.

Bankruptcy proceedings played out for more than a year during which Cerberus was criticized by creditors for fees it was taking out of the business. In the process, NewPage obtained a commitment led by JP Morgan Chase and Wells Fargo for up to $600 million of credit financing during its bankruptcy. That money would help keep the company operating, but NewPage did not lay out a plan for emerging from bankruptcy. It said it expected to continue operating its U.S. business as usual and was working closely with creditors, including Apollo and Avenue Capital, and stakeholders to formulate a plan. Under one scenario, Apollo, Avenue and other investors holding those bonds would forgive their debt in exchange for large ownership stakes in a restructured NewPage.

NewPage Corporation announced 21 December 2012 that it had successfully completed its financial restructuring and had officially emerged from chapter 11 protection.

1.5. The Verso Corporation years: Leverage, layoffs, mill divestment and idling, no R&D/capital investment, bankruptcy

> Verso Corporation's emergence in the pulp and paper industry mirrors that of NewPage as a product of a leveraged buyout in the mid 2000s. Like NewPage, it was burdened with substantial debt and suffered financially during the Great Recession. Unlike NewPage it did become a publicly listed company but it adopted similar strategies to NewPage to meet its financial obligations with layoffs, mill divestments and paper machine idlings. Leadership talked of repositioning the company to respond to market opportunities but the capital investment levels that competitors were making was never achieved by Verso. The COVID-19 pandemic hit what remains of the commercial printing sector extremely hard and Verso responded by idling two more of its assets including the mill at Wisconsin Rapids.

1.5.1. The origin of Verso Corporation

Almost paralleling the formation of NewPage, another new company, Verso Corporation, was formed in 2006 by Apollo Global Management to acquire the coated and supercalendered paper business of International Paper. The transaction included some of the most efficient, low-cost coated paper facilities in North America comprising four mills: Jay and Bucksport in Maine, Quinnesec, Michigan, and Sartell, Minnesota. Apollo Global Management paid $1.47 billion for the company, investing $248 million of its own money. The deal was consummated just as digital businesses such as Amazon were flourishing and catalog and magazine publishers reduced their demand for glossy paper and began putting more content into digital publications.

In December 2007, Apollo Global Management filed an initial public offering for Verso Corporation, aiming to sell 18.75 million shares at a price of $16 to $18 and seeking to raise as much as $337 million on the New York Stock Exchange. The Wall Street Journal reported[6] that most of the proceeds raised were to be used to pay back debt used to finance the $250 million dividend that Apollo paid itself at the beginning of the year. Although such dividends had been common among private equity owned companies coming public at that time, ratings agencies were not looking favorably on loans or bonds to pay dividends. Standard and Poor's cut its corporate credit rating on Verso to B from B+ as a result of the added dividend debt.

Verso Corporation's financial statements showed, for 2007, net sales rose 1% against a net loss of $111.5 million compared with net income of $8.1 million in 2006. The company's results improved in that year's first quarter, with net sales rising 26% as both sales volumes and prices rose, and its net loss narrowed to $3.1 million from a loss of $35.4 million a year earlier. However, in both the full year and quarterly results, interest expenses erased all operating income. An analyst concluded, "Their interest payments are too high."

On the back of failing to secure enough investor interest in its IPO, Verso Corporation cut the number of shares to 14 million and reduced the offering price to $12/share for $168 million. The stock

[6] Cowan, L. (2008) Poking holes in Verso Paper offer, Wall Street Journal, May 12. Available at https://www.wsj.com/articles/SB121055916723184267 (Accessed: 9/12/21).

closed at $10.46 a share, reflecting a fall of 17% in its first day of trading on 15 May 2008. Apollo received a $250 million special dividend from Verso along with $5.3 million in advisory fees and a $23 million termination fee paid when the public offering was complete.

Verso Corporation's share price continued to fall after the IPO because of (1) the downturn in the global economy, (2) the shift to digital media which eroded demand for coated paper, (3) foreign competition, and (4) the highly leveraged debt from the Apollo acquisition. Indeed, over the next six years, Verso Corporation's balance sheet grew increasing unstable. By the end of 2013, Verso Corporation's share price traded under a dollar and industry watchers forecast that its only lifeline was a merger with NewPage.

1.5.2. The acquisition of NewPage

In January 2014, as Verso Corporation's finances looked increasingly dire, it announced two transactions to help ease its debt load. First, it would swap a portion of its outstanding bonds for paper with a lower face value. This proposal would have reduced Verso Corporation's total standalone debt from about $1.2 billion to about $950 million. However, its second transaction, to combine with NewPage would add another $1.4 billion of debt (see below). The combined company was expected to have sales of about $4.5 billion, and about 5,800 employees.

Under the terms of the NewPage transaction, NewPage's equity holders would receive total cash and debt consideration of $900 million, consisting of $250 million in cash, most of which would be paid to the stockholders as a special dividend prior to closing and the remainder of which would be paid at closing, and $650 million of new Verso Corporation first lien notes to be issued at closing. NewPage's equity holders also would receive shares of Verso Corporation common stock representing 20% (subject to potential adjustment up to 25% under certain circumstances) of the outstanding shares as of immediately prior to closing.

The combination of the two companies was also projected to result in cost savings of at least $175 million during the first 18 months after the deal closed. These savings would stem from administrative efficiencies and by buying needed raw materials – wood, pulp, and chemicals – in bulk. Subsequent reporting and then the bankruptcy proceedings undertaken by Verso (see below) fail to reveal whether those savings were realized.

On 23 June 2014, Moody's Investors Service[7] cut Verso Corporation's bond rating by three grades, from B3 to Caa3, based on the view that Verso Corporation's debt obligations were "judged to be of poor standing and are subject to very high credit risk. In a statement, Moody's stated that it expected a distressed exchange or a bankruptcy filing if Verso Corporation is unable to close on its $1.4 billion deal to buy NewPage.

At the announcement of the merger discussions,[8] Verso Corporation chief financial officer Robert Mundy said layoffs were not expected "at this time." A New York corporate management lawyer noted that neither company had discussed closing mills during negotiations and that "the

7 Moody's Investors Service. (2014) Moody's downgrades Verso Paper's CFR to Caa3 and liquidity to SGL-4; ratings remain under review, June 20. Available at: https://www.moodys.com/research/Moodys-downgrades-Verso-Papers-CFR-to-Caa3-and-liquidity-to--PR_302283 (accessed 9/12/21).

8 Abrams, R. (2014) Verso Paper to buy NewPage Holdings, New York Times, January 6. Available at https://dealbook.nytimes.com/2014/01/06/verso-paper-to-buy-newpage-holdings/ (accessed:9/12/21).

possibility of the merged company closing mills in the future was not likely." Collectively, the moves sent Verso Corporation shares from under $0.65 to more than $4.38.

Industry analyst, Chip Dillon, commented[9] at the time, "It's sort of like two very weak companies holding each other up... If you are a bigger company, it is easier to cut costs and cut capacity." Regarding the deal, he commented, "Basically the companies are buying more time in the hope that there is a natural level of demand for coated paper... Essentially the deal is all debt, there is no real equity involved here."

Verso Corporation would finance the acquisition through $750 million in committed financing, which would be used to pay the cash portion of the merger consideration and to refinance NewPage's existing $500 million term loan prior to closing. The value of the transaction would be $1.4 billion, composed of the cash consideration, the $650 million of new Verso Corporation first lien notes, the Verso Corporation common stock and the refinancing of NewPage's $500 million term loan. Apollo would take advantage of low interest rates to refinance Verso Corporation's balance sheet, postponing the repayment of $930 million of debt falling due between 2012 to 2016 until several years later.

One key hurdle remained: NewPage would only agree to a transaction if a portion of Verso Corporation creditors agreed to reduce their claim by 50% on the $500 million of bonds they held. The bond-holders did not wish to relinquish that level of value reasoning that more of the value creation from the merger belonged to them rather than shareholders while the shareholders (holding previously nearly-worthless equity) kept a 400% gain. Verso was successful in getting 75.6% of creditors, that held $299.5 million in second-lien notes, to reduce the amount the company owed in those notes by about 40%. Verso was also successful in getting 71.6% of creditors, that held $102 million in subordinated notes, to agree to an exchange offer as well. The negotiations were concluded on 30 July 2014.

The NewPage-Verso Corporation transaction had to go through a lengthy review which anticipated the sales of two mills: Biron, Wisconsin and Rumford, Maine to avoid potential antitrust issues. The Department of Justice had been concerned that, without the mill sales, the deal would have risked higher prices in the United States and Canada for paper used for labels, magazines and catalogues. The DOJ said[10] the proposed settlement "will ensure that consumers benefit from continuing competition in the sale of coated paper." The sale to Catalyst Paper Corp, was valued at $74 million. The acquisition of NewPage was completed on 7 January 2015.

Following the acquisition, business remained difficult for Verso and it made reductions in capacity in Jay, Maine and idled its Wickliffe, Kentucky mill. Its share price steadily declined throughout 2015. The New York Stock Exchange notified Verso in June that its stock was not meeting the exchange's standard requiring its average share price to be at least $1.00 over a consecutive 30-trading-day period. The stock exchange asked the company to submit a plan to bring its stock back into compliance. Verso submitted that plan on 21 September 2015, but the stock continued to fall

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[9] Gopinath, S. and Goel, G. (2014) Verso Paper to buy NewPage Holdings for $900 million, reuters.com, January 6. Available at: https://www.reuters.com/article/us-newpageholdingsin-offer/verso-paper-to-buy-newpage-holdings-for-900-million-idUSBREA050JV20140106 (Accessed: 9/12/21).

[10] Department of Justice. (2014) Justice Department requires divestitures in Verso Paper Corp.'s acquisition of NewPage Holdings Inc. [press release] December 31.

throughout the day.

The New York Stock Exchange suspended trading of Verso's stock on 22 September 2015 when its trading price decreased to $0.15 per share. In addition to suspending the stock, the New York Stock Exchange also began delisting it. Verso said in a statement,[11] "the suspension and delisting are unrelated to Verso's business operations and do not constitute default under any of Verso's credit agreements and debt securities. Verso will continue to file periodic and other reports with the SEC under applicable federal securities laws."

1.5.3. Bankruptcy

Despite the merger, in a regulatory filing[12] 16 November 2015, Verso Corporation said it might be forced to file for chapter 11 bankruptcy protection. It said it hoped to raise funds through selling off assets but there was "substantial doubt" about the company's ability to continue as a going concern in the absence of balance-sheet restructuring.

In its earnings report, the company said it was considering selling four mills, including the Androscoggin Mill and its related hydro-electric facilities, to meet its financial obligations. On 8 January 2016, Verso Corporation confirmed that it had sold the hydro-electric facilities for approximately $62 million in cash. Verso Corporation was carrying more than $2.8 billion in debt and paying interest of more than $270 million annually.

On 15 January 2016, Verso Corporation reported[13] it had missed a payment on $1.34 billion in bonds, and entered a negotiation period with debt holders in the hopes of reaching a deal to restructure its debt. It said it was choosing to exercise a 30-day grace period, rather than making the payments on two sets of bonds maturing in 2019. Additionally, Verso Corporation said that its NewPage unit missed an interest payment on its $731 million senior loan.

Eleven days later, on 26 January 2016, Verso Corporation filed for chapter 11 bankruptcy protection with CEO David Patterson saying that the company has worked "to develop a restructuring plan to eliminate $2.4 billion of our outstanding debt" and exit bankruptcy proceedings "in a short time frame." Verso Corporation said it expected to reach an agreement with certain creditors and obtain a bankruptcy funding package of up to $600 million to support continued day-to-day operations. David Paterson said[14] at the time, "Since Verso Corporation acquired NewPage Holdings Inc. in January 2015, a confluence of external factors, including an accelerated and unprecedented decline in demand for our products, a significant increase in imports resulting from a strong U.S. dollar relative to foreign currencies and Verso Corporation's impending financial obligations made it apparent that action was needed." "The alternative to a restructuring is a sale of assets, either mill by mill or in packages," chief financial officer Allen J. Campbell, said in a filing.[15]

[11] Verso Corporation. (2015) New York Stock Exchange suspends trading in Verso's common stock and commences delisting proceedings [press release] September 21.

[12] Verso Corporation. (2015) Form 10-Q, filed November 16. Available at: https://www.sec.gov/Archives/edgar/data/0001421182/000142118215000068/vrs9302015-10q.htm (Accessed: 9/12/21).

[13] Verso Corporation. (2016) Form 8-K, filed January 15. Available at: https://www.sec.gov/Archives/edgar/data/0001421182/000142118216000076/form8-kgraceperiod.htm (Accessed: 9/12/21).

[14] Brickley, P. (2016) Verso Corp. files for chapter 11 bankruptcy protection, Wall Street Journal, January 26. Available at: https://www.wsj.com/articles/verso-corp-files-for-chapter-11-bankruptcy-protection-1453812894 (Accessed: 9/12/21).

[15] Campbell A. J. (2016) Allen J Campbell's Declaration in support of the debtors' chapter 11 petitions and first day pleadings , January 26. Available at: http://bankrupt.com/misc/20_VERSO_Declaration.pdf. (Accessed 9/12/21).

On 23 June 2016, Verso Corporation won confirmation of its plan that allowed it to exit bankruptcy "wholly intact, substantially de-leveraged and with a fresh start." Verso Corporation emerged from bankruptcy on 15 July 2016 with $2.4 billion in debt off its books. David Paterson said that the balance sheet restructuring left the slimmed-down company better positioned for a world where digital communication is gaining dominance. Verso's stock was officially re-listed on the New York Stock Exchange on 18 July 2016.

1.5.4. Verso Corporation post-bankruptcy

David Paterson left his role on 31 August 2016 and Verso Corporation was led by an Office of the Chief Executive from 31 August till a new CEO, Christopher DiSantis, was appointed on 1 February 2017. Verso Corporation then had a second chance to turn around the company.

A new board of directors was appointed. Half of the six directors had not previously served on Verso Corporation's board of directors and were "expanding their knowledge of… operations and strategic plans."[16] Verso Corporation acknowledged that the ability of the new directors and new CEO to quickly expand their knowledge of business plans, operations, strategies and technologies would be critical to their ability to make informed decisions about strategy and operations, particularly given the competitive environment in which the business operated and the need to quickly adjust to technological trends and advancements. Of the new board of directors, the new chair Robert Amen had been in a leadership role with International Paper from 1980 to 2006 and a director of Verso Corporation since 2015. Jay Shuster had worked for RockTenn (one of North America's leading producers of corrugated and consumer packaging and recycling solutions) from the late 1970s to 2000 and then operated a consulting practice. None of the other directors, including the new CEO, had any prior paper industry experience. Rather, their expertise was in fiduciary services, turnaround management and business analysis. The lack of depth and breadth in paper industry expertise is noteworthy.

DiSantis was quick to call out the headwinds and secular decline that graphic papers and coated papers were facing and so, while Verso Corporation was intent on remaining a leader in graphic papers, it would also focus on its pulp and specialty businesses for capital investment. DiSantis sought to reframe and reposition Verso Corporation by "being decisive and making bold moves to thrive in the dynamic changing market place." As part of a strategic review, DiSantis elaborated, machine conversion projects were being considered into product lines like white paperboard, carton, and containerboard liner. All options were being considered. The alternative grades mentioned were categories for which demand was increasing and had applications in food packaging, food serviceware as well as e-commerce for the production of packing boxes. Conversions of paper machines to produce these grades would reduce Verso's exposure to the graphics paper markets and open up opportunities to establish a foothold in growth markets. DiSantis was also focused on driving cash flow and reducing debt.

A Strategic Alternatives Committee was announced on 21 September 2017 to evaluate options. "We're evaluating everything," DiSantis said in the second quarter earnings call.[17] We look at every

[16] Verso Corporation. (2016) Verso Corporation 2016 Annual Report. Available at: https://www.annualreports.com/HostedData/AnnualReportArchive/v/NYSE_VRS_2016.pdf (Accessed: 9/12/21).

[17] DiSantis, C. (2017) Verso's CEO Christopher DiSantis on Q2 2017 Results – Earnings Call Transcript, seekingalpha.com. Available at: https://seekingalpha.com/article/4097073-versos-vrs-ceo-christopher-disantis-on-q2-2017-results-earnings-call-transcript (Accessed 9/12/21).

single mill and we look at what's the opportunity for conversion of that mill if we make considerable investment there... also we'll look at whether that mill has more value as a joint venture, or more value if that mill if it is sold, or if we try to ambitiously fill that mill with new product and upgrade the mix. You look at holistically, which is how do we maximize the value of the whole system?"

It is likely that this committee was an outcome of activist action by Mudrick Capital Partners which two days before, filed documents[18] noting it was "deeply frustrated with the board's inaction to address" the paper maker's "rapidly deteriorating financial position". This action also coincided with the resignation of Verso Corporation board chairman, Robert Amen.

However, around the same time, competitor companies such as Appleton Coated, SAPPI, UPM and West Linn began closing their paper mills and these actions substantially benefited Verso Corporation's pricing for those grades through 2017 and 2018 as capacity reductions hit. The beneficial impact of these structural changes in the sector on Verso Corporation's revenues may have distracted or slowed the deliberations and assessments of strategic alternatives that might have reduced Verso Corporation's presence in the graphics paper market by conversion to other products. While Verso Corporation continued to benefit from competitors' reduced production capacity, it continued to grow its specialty businesses. Throughout 2018, Verso Corporation substantially reduced its debt and continued to generate revenues from its graphic paper and specialty businesses.

On the face of it, Verso Corporation was turning around. Throughout 2018, DiSantis continued to pursue a narrative that focused on packaging papers and market pulp and the significant contribution that those products were making to revenue. He saw that end markets for specialty and packaging products were strong and "that the evolution of e-commerce, markets, sustainability and renewable preferences were making a comeback over plastics."[19] However, there were no updates from the deliberations on strategic alternatives that year.

Table 3 reports debt to equity and debt to EBITDA ratios from 2015 to the present day. The chart shows how the highly leveraged position heading into bankruptcy proceedings in 2015. Notably, the debt-to-equity ratio has improved year on year since 2016.

	2015	2016	2017	2018	2019	2020
Debt to equity	-2.43	0.38	0.25	0.00	0.01	0.01
Debt to EBITDA	18.82	0.21	1.65	0.00	0.04	0.11

Table 3. Debt to equity and debt to EBITDA ratios calculated from Verso Corporation's SEC filings 2015–2020 Benchmarks: debt to equity around 1; debt to EBITDA: 3 acceptable; 4.5-5, over-leveraged. 2016 values are representative of post-successor values (July 2016-December 2016).

[18] Mudrick Distressed Opportunity Specialty Fund. (2017) SC 13D (Beneficial ownership report), filed September 19. Available at: https://www.sec.gov/edgar/search/?r=el#/q=frustrated&page=1&ciks=0001421182&entityName=Verso%20Corp%20(CIK%200001421182)&category=form-cat0&forms=-3,%20-4,%20-5 (Accessed 9/12/21).

[19] DiSantis, C. (2018) Verso's CEO Christopher DiSantis on Q3 2018 Results – Earnings Call Transcript, seekingalpha.com. Available at: https://seekingalpha.com/article/4219591-verso-corp-vrs-ceo-chris-disantis-on-q3-2018-results-earnings-call-transcript (Accessed: 9/12/21).

DiSantis continued to focus on paying down debt – by the end of 2018, Verso Corporation was debt-free – and evaluating capital investments. Options included expanding productivity on containerboard and making significant investments into pulp. He was focused on diversifying into kraft linerboard and continuing to reduce Verso Corporation's exposure to the graphics paper market, noting that growth in non-graphic papers was strong and that anti-plastic sentiment was driving sales. He saw opportunities to flex the capability of the company's paper machines, and adjust the company's product portfolio towards 50:50 specialty and graphics. He postulated large (>$100 million) capital investments to convert its entirely graphics focused machines, such as the machine in Wisconsin Rapids, to specialty packaging grades.

A paper machine in Jay, Maine was converted from coated printing and writing paper output to kraft linerboard at a cost of $18.6 million. Notably, no capital investment in the order of magnitude conceived of by DiSantis was executed. DiSantis left Verso on 5 April 2019.

DiSantis was the first of a number of CEOs with a tenure at Verso Corporation of two years or less. Such short tenure is roughly half the median tenure of CEOs of large companies. It can be indicative of board and investor dissatisfaction with leadership, of CEO dissatisfaction with the board and symptomatic of lack of direction and stability for the business.

Table 4 lists the tenure of Verso Corporation's CEOs from its inception to the present day. Highlighted in red are those tenures that were two years or less. Verso Corporation has had five CEOs in the past 5 years.

CEO	From	To
LH Puckett	1 August 2006	28 November 2006 (retired)
Michael Jackson	28 November 2006	14 May 2012 (retired)
David Paterson	14 May 2012	31 August 2016 (retired)
Office of the Chief Executive	1 September 2016	31 January 2017
Christopher DiSantis	1 February 2017	5 April 2019 (resigned)
Leslie Lederer (interim)	5 April 2019	11 November 2019 (resigned)
Adam St. John	11 November 2019	30 September 2020
Randy Nebel	1 October 2020	present

Table 4. Verso Corporation CEOs since the company's formation till the present day. Entries highlighted in red are CEOs that were in place for two years or less.

Leslie Lederer replaced Christopher DiSantis as Interim CEO on 5 April 2019. He initially pursued the same strategy of transitioning from graphic papers to specialty papers, packaging papers and market pulp, planning to invest $120 million over the next two years in capital projects at the Androscoggin, Duluth and Stevens Point mills. Lederer's approach also may have been over-dependent on Verso Corporation's competitors exiting graphic papers to give Verso Corporation the time to invest in significant capital projects to reposition its assets.

It appears that at least two years passed during which time Verso Corporation could have substantially repositioned its assets as DiSantis had described and, yet, there was a clear failure to execute any substantial machine or mill conversions that required significant capital to reduce the company's exposure to paper grades in secular decline.

The terms of Leslie Lederer's employment contract and incentive payments are instructive. Lederer would be employed till such time as the company was sold and 67,720 shares would vest at the time of change of control.

If it was not clear before, the strategic alternatives now being contemplated were laser focused on selling the business. Any strategic intent Verso Corporation may have had in its early years was now gone and realizing shareholder value was the clear priority. During a seven-month period from March to September 2019, Lederer, his team and investment adviser Houlihan Lokey evaluated eight potential buyers of the entire company or certain of its assets. On 12 November 2019, Verso Corporation announced the sale of its Stevens Point and Jay mills to Pixelle Specialty Solutions for $400 million with payment of a special dividend – the same mills that only seven months earlier, Lederer had announced would be the focus of a $120 million capital improvement initiative. While the terms of Lederer's employment contract were in the public domain in an SEC filing six days after his hiring on 11 April 2019, details of the negotiations with other buyers only became public in a subsequent SEC filing after the fact on 30 December 2019.

Upon announcement of the sale, Leslie Lederer stepped down as interim CEO, his shares vested and he was succeeded on 12 November 2019 by Adam St. John.

Two shareholders, private equity firms Atlas Holdings and Blue Wolf Capital Partners opposed the sale, writing[20] "We remain concerned about our investment in Verso Corporation and believe meaningful changes to the composition of the board of directors ... are necessary to ensure that the company is operated in a manner consistent with the best interests of stockholders." "If elected, we believe that our highly-qualified nominees will help achieve that goal."

Atlas and Blue Wolf had made several unsuccessful attempts to acquire Verso Corporation since 2017. In December, they proposed a slate of three new directors for the company, each of whom had been previously rejected by the board.

Verso Corporation countered that if Atlas and Blue Wolf succeeded in gaining control, they would end the sale and instead merge the company with a competitor, Twin Rivers Paper. Twin Rivers is jointly owned by Atlas and Blue Wolf, and one of the nominees proposed by the firms, Timothy Lowe, was the former chair and CEO of Twin Rivers. Verso Corporation, in its note to shareholders, said[21] the firms' actions "are putting at least $225 million of capital returns – and the future value of your investment – at risk." "We believe Atlas/Blue Wolf has commenced its proxy contest so as to control the company's specialty mills without paying for them and to provide an exit strategy for its suspected underperforming portfolio asset, Twin Rivers Paper, by combining it with our better performing assets," Verso Corporation said. "Atlas/Blue Wolf's objective is self-serving and doesn't benefit all of Verso Corporation's stockholders."

The proxy fight ended 31 January 2020 with a new slate of board nominees that received the support of both sides. In addition, Atlas and Blue Wolf committed to vote in favor of the sale. The sale of the mills to Pixelle completed on 10 February 2020.

[20] Atlas Holdings LLC and Blue Wolf Capital Advisors IV, LLC. (2019) Atlas Holdings and Blue Wolf Capital issue letter to Verso Corporation board of directors [press release] December 3.

[21] Verso Corporation. (2020) Verso mails letter to stockholders reiterating the significant value creation and return of capital to stockholders by the board and management team [press release] January 13.

During the period of the Strategic Alternatives Committee deliberations beginning in September 2017 till the announced sale of the Jay and Stevens Point mills, the announced strategy to become a specialty paper company had turned to one of generating cash for shareholders with little prospect left to reposition the remaining Verso Corporation assets as a specialty business. Verso Corporation characterized the sale as a means of “prioritizing their graphics operations to allow us to be more resilient to market headwinds and to provide greater flexibility to take advantage of future opportunities as they arise.”

However, any prospects to re-position the printing and publication paper outputs of Wisconsin Rapids which had received significant capital investments from Consolidated Papers and Stora Enso for the production of coated freesheet almost 20 years ago, were vanishing. Other competitor companies had taken decisions to convert machines to other production outputs. NewPage and Verso Corporation had failed to act.

Some six months after the Pixelle transaction, Adam St. John announced that Verso would indefinitely idle its mills in Wisconsin Rapids and Duluth on 31 July 2020.

Adam St. John resigned abruptly on 30 September 2020. The research provider, exechange, tracks executive changes and gauges (on a scale of 0 to 10) the likelihood that a manager was pushed out or felt pressure to leave the position. Adam St. John’s departure was rated 9.

Randy Nebel was appointed interim president and CEO in October 2020 and was confirmed in the role on 28 January 2021. Nebel is Verso Corporation’s current president and CEO.

On 5 February 2021, it was announced that Consolidated Cooperative had filed a letter of intent with Verso Corporation to purchase the Wisconsin Rapids mill. Two months later (23 April 2021) a member of the cooperative was reported[22] as saying, “it’s just waiting on Verso Corporation’s call in order to begin reopening the Wisconsin Rapids mill.”

On 7 May 2021, Wisconsin lawmakers Rep Scott Krug and Sen Patrick Testin announced they had authored a bill (Assembly Bill 367) to provide assistance in the purchase of the mill. The bill would provide loaned funds to partially close the gap between the price of the mill and the funds that the cooperative has been able to raise, by allocating $50 million from the federal pandemic stimulus/relief funds within the American Rescue Plan Act (ARPA). The bill passed in the Wisconsin State Assembly on 22 June 2021 and the State Senate on 30 June 2021 after which it headed to the Governor’s office. Governor Evers vetoed the bill on 8 July 2021, setting out two objections over the proposed use of ARPA monies to provide the loans. Firstly, it was not clear that the U.S. Department of Treasury would permit ARPA funds to be used for the purposes. The Treasury’s Interim Final Rule governing ARPA eligibility required that assistance provided to businesses must respond to the negative economic impacts of COVID-19. Because many mills were experiencing significant financial difficulties prior to the COVID-19 pandemic as a result of long-term economic and industrial trends in this sector, the federal government may view the assistance as insufficiently tied to the impacts of the pandemic, Secondly, ARPA funds are only available for use through 31 December 2024, limiting

[22] Davies, E. (2021) First of its kind multi-state cooperative says it’s just waiting on Verso’s call in order to begin reopening the Wisconsin Rapids mill, WSAW-TV, April 23. Available at: https://www.wsaw.com/2021/04/24/first-of-its-kind-multi-state-cooperative-says-its-just-waiting-on-versos-call-in-order-to-begin-reopening-the-wisconsin-rapids-mill/ (Accessed: 9/12/21).

their flexibility for the type of long-term loans needed by potential purchasers. Following the bill's vetoing, Atlas Holdings advanced a $20 per share offer to purchase Verso outright. Verso said that the proposal was unsolicited and that it was talking with its financial and legal advisors to carefully review the Atlas proposal to determine what would be in the best interest of Verso and its stockholders, regarding the Atlas offer.

2. FINANCIAL RATIO ANALYSES OF CONSOLIDATED PAPERS, STORA ENSO, NEWPAGE AND VERSO[23]

A fundamental analysis of each owner's profitability, leverage and efficiency was performed using calculated financial ratios.[24] The figures below show that data in contrast with the industry peer group's mean and median values from 1996 to 2020.

While evaluating ownership tenure with respect to profitability, efficiency and leverage, the net profit margin, total debt/EBITDA and asset turnover ratio were reviewed. Taken by itself, the net profit margin is an indicator of a company's operational capability to minimize operational costs while maximizing profits from sales. The total debt/EBITDA showcases how well a company is positioned to handle its debt obligations with respect to its earnings. Lastly, the asset turnover ratio measures how well management is able to leverage its paper-producing and other assets to generate revenue as a function of net sales over average asset value (it is important to note that selling off assets can improve this ratio).

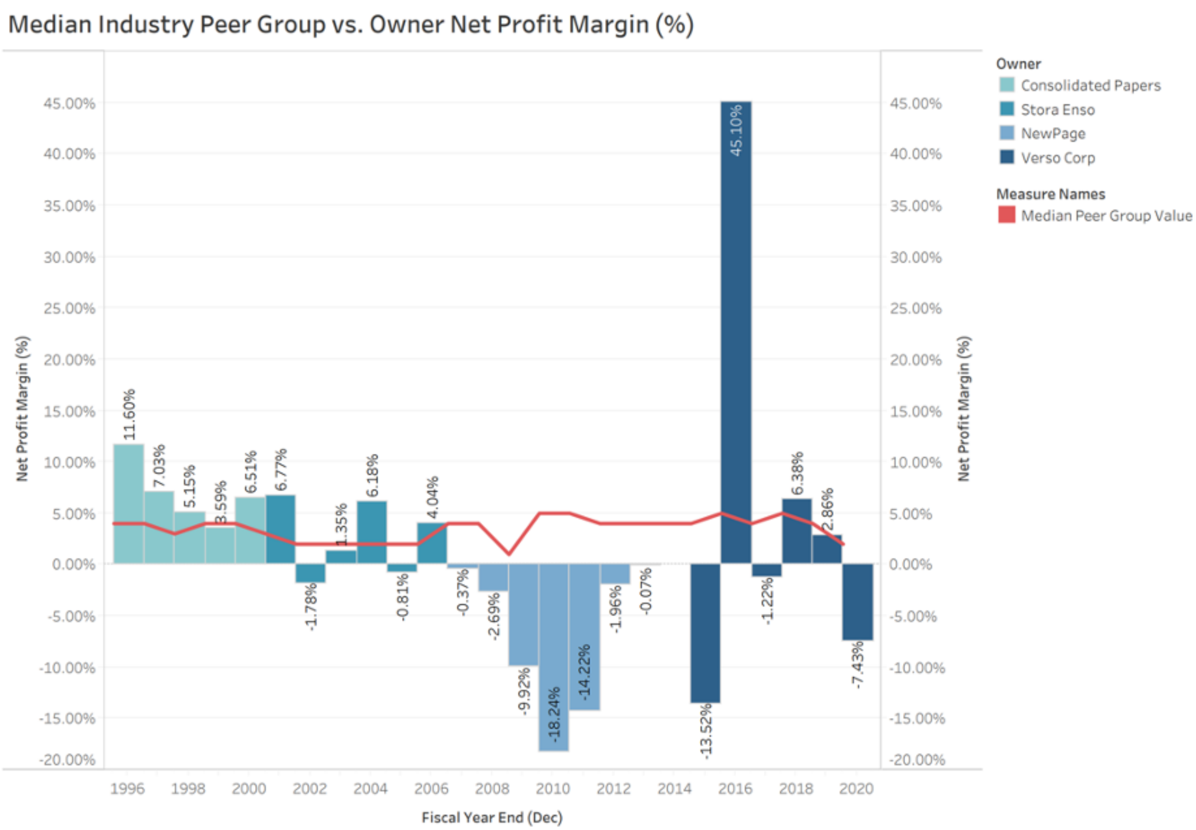

Figure 2. The trends of Net Profit Margin (%) from 31 December 1996 to 2020. The solid red line indicates the median industry peer group value.

[23] Financial ratios were calculated from annual 10-K statements for Consolidated Papers (1996 to 2000), NewPage (2007 to 2013), Verso (2015 to 2020), and annual 20-F statements for Stora Enso (2001 to 2006). The 2014 annual report was not available for review from NewPage.

[24] See Appendix for expanded financial ratio coverage including mean and median industry group values and average ownership period changes (%).

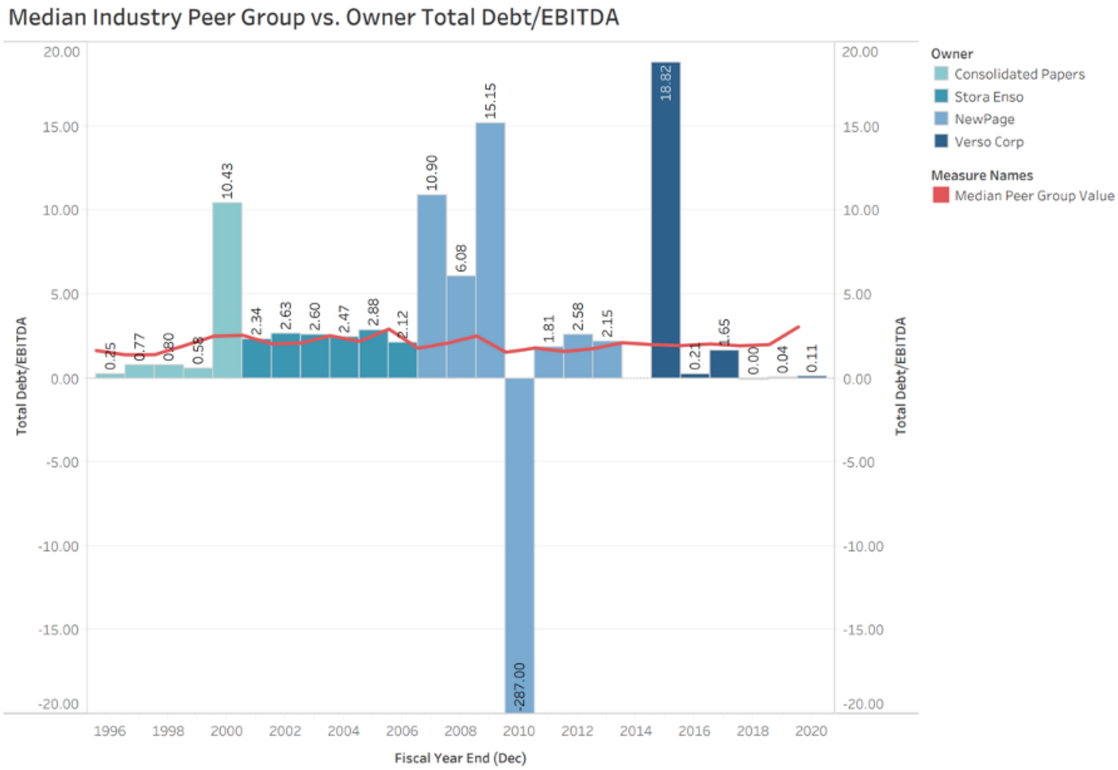

Figure 3. The trends of Total Debt/EBITDA Ratio from 31 December 1996 to 2020. The solid red circles indicate the median industry peer group value.

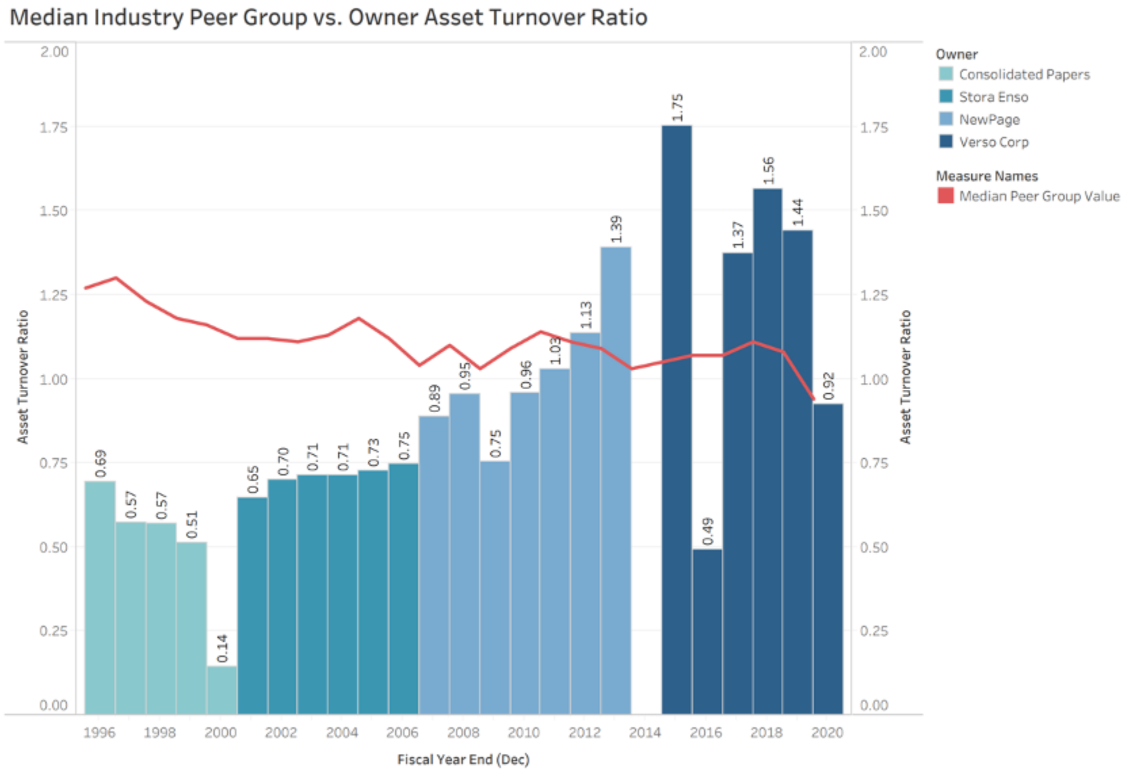

Figure 4. The trends of the Asset Turnover Ratio from 31 December 1996 to 2020. The solid red circles indicate the median industry peer group value.

Consolidated Papers

Profitability

- Management stated external trade factors began to impact Consolidated in earnest in the late 1990s due to rising pulp costs, global overcapacity as mills in Europe and China increased production and new mills were constructed, as well as increased competition from foreign companies able to make inroads into the U.S. market because of the strength of the dollar.[25]
    - The net profit margin captures a decline from 1996 to 1999 consistent with the rising costs management stated.
        - Cost of goods sold increased in value 33.78% while revenue only grew 18.96% from 1996 to 1999; the asymmetry of year-over-year cost vs. revenue increases contributed to the company's declining net profit margin.
        - From October 1991 to August 1995, the producer price index[26] for pulp, paper, and allied products showed an increase in value from 108.6 to 200.5 respectively, representative of an almost 85% increase in cost. The value then dropped to 130.8, a decrease of 34.76% from 1995 but still an overall increase of 20.44% from 1991. The volatility of transportation prices[27] contributed to rising operating costs.
    - The U.S. dollar index increased in value from May 1995 (84) to May 2002 (113). The rising strength of the dollar was beneficial for consumers as purchasing power increased but detrimental for businesses as imports fell in value relative to the rising dollar's strength; allowing other countries to gain a foothold in the U.S. market.
- Net profit margin rebounded the subsequent year because in 1999, Consolidated initiated a two-year cost-cutting exercise aimed at reducing annual operating expenses by $100 million. In addition to the implementation of various operating efficiency initiatives, the company also announced the layoff of 700 workers in mid-2000 further reducing operating costs.
    - Total costs in 1999 were $1.572 billion compared to $1.649 billion indicative of the cost-cutting which was further maintained by the layoffs and resulted in the rebound in net profit margin observed in 2000.
- Market (rising pulp costs) and economic (US currency strength) factors created unfavorable conditions for Consolidated's management team and pushed them towards two decisions to improve profitability, 1. Increase revenue or 2. Decrease operating costs. Increasing revenue would have been difficult in a competitive market witnessed by rising raw material costs and encroaching global competitors. Consolidated's decision to reduce operation costs did come with the loss of human capital.

Leverage

- Until the 1990s, Consolidated had generally avoided the accumulation of debt. However, all of the intensive expansion projects around this time resulted in considerable long-term debt for the first time in Consolidated's history. In the early 1990s Consolidated generated sufficient cash to subtract from its debts, while still making significant capital expenditures to keep its plants current and competitive. In 1997, an even larger acquisition, that of Repap USA, Inc., was purchased for $258 million in cash and $419 million in assumed debt.

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[25] See Appendix for 43-year historical performance of the U.S. Dollar Index.

[26] See Appendix for the Producer Price Index by Commodity: Pulp, Paper, and Allied Products: Wood Pulp produced by the U.S. Bureau of Labor Statistics.

[27] See Appendix for the Producer Price Index by Industry: General Freight Trucking, Long-Distance Truckload produced by the U.S. Bureau of Labor Statistics.

        - Total Debt/EBITDA drastically grew from 1996 (0.25) to 1997 (.77) as a result of the Repap USA, Inc. acquisition.
            - Total Debt/EBITDA values increased from a low in 1996 (0.25) to a high in 1999 (10.40) primarily due to declining values in net income.
                - Net income decreased by 63.14% from 1996 to 1999 due to costs increasing year-over-year.
                - As a result, total debt and EBITDA increased by 194.34% and 27.59% respectively during the 1996 to 1999
            - Consistent with declining net income values, the interest coverage ratio further highlights how Consolidated went from handily being able to meet its interest payments 70 plus times over in 1996 to almost 17 times over in 1999.

<u>Efficiency</u>

- Consolidated started a second new paper machine in 1996 and acquired 3 new printing machines from its Repap Enterprises Inc. acquisition. Consolidated also disposed of one of its non-coated-paper operations – the corrugated packaging subsidiary Castle Rock Container, which was sold to St. Laurent Paperboard Inc. in May 1999
    - Consolidated maintained a declining asset turnover ratio throughout its ownership which further validates the difficult market conditions Consolidated was navigating with respect to rising costs and competition.
    - In addition to high debt values, Consolidated held an additional 50% ($487 million) of its debt value in capital lease obligations, representative of machinery taken on lease whose ownership will revert back from Consolidated upon the lease's expiration.
        - With management stating global overcapacity, these capital lease obligations contributed to Consolidated's declining asset efficiency.
        - The year 2000 marked the transition ownership transition period from Consolidated to Stora Enso, and values are not representative of the entire year.
        - Total asset value grew 39.26% from 1996 to 1999 while property, plant and equipment (PP&E) assets grew 54.31% in value not including depreciation consistent with management's acquisition of new mills. As stated previously, revenue during the same period only increased by 18.96%.
        - Consistent with its sale of Castle Rock Container, PP&E assets declined in value from 1998 to 1999 by 2.29%.

Stora Enso

<u>Profitability</u>

- The year 2000 and the first half of 2001 were reasonably good years for Stora Enso. However, in the second half, the dot-com bubble burst, 9/11 occurred and the global economy collapsed into recession between 2001 and 2003. The result was weakening paper demand and falling prices. At first, Stora Enso managed to gain market share, but with lower prices, profitability was severely hit. As a result of these compounding factors, cash flows and earnings margins were negative in 2002.

- As global demand dipped, prices dropped even further, and with no signs of improvement were in sight, Stora Enso wrote off $1.2 billion of its North American book value as impairment charges. This also marked the start of a major restructuring of Stora Enso North America, which included significant workforce reductions. These one-off restructuring costs caused cash flow to be negative in 2002 and 2005. Looking forward to 2006, some Stora Enso North America managers believed that the efforts were beginning to yield positive results as the company began to produce positive cashflows from that point onwards. Over the seven-year period of Stora Enso ownership, some 2650 job losses were recorded at Stora Enso's North America facilities.
  - Net profit margins declined significantly (–27.18%) from 2001 to 2006 as a result of rising pulp wood prices compounded with the economic consequences of the dot-com bubble burst and 9/11.
    - Operating profit margin decreased by 53.35% during the same time period indicating inefficiencies in managing operating costs.
  - Successful debt restructuring and significant operating cost reductions resulted in improvements (23.70%) in the operating profit margin, indicating operating costs were being managed.
- With respect to the net profit margin, Stora Enso's acquisition of Consolidated did increase its market share but did little to increase its profitability due to unforeseen market shocks. Even with significant lay-offs and debt restructuring, the cost of materials still had an impact on profitability with material cost increasing 23.89% from 2001 to 2006.

<u>Leverage</u>
- Stora Enso ultimately decreased its debt by 31.26% but saw its EBITDA values decrease by 24.28% from 2001 to 2006, resulting in its total debt/EBITDA values being managed in the range of 2.12 and 2.88 with an average of 2.50 and a standard deviation of .26.
- Though Stora Enso was managing its debt, its net and gross profit margins showed worrying signs.
  - Net profit and gross profit margins decreased by 23.54% and 40.39% respectively from 2001 to 2006.
- Standard & Poor's (S&P) and other credit rating agencies reduced the rating of Stora Enso's long-term and short-term debt obligations:
  - S&P:
    - Long-term debt: BBB
    - Short-term debt: A-2
  - Moody's
    - Long-term debt: Baa3
    - Short-term debt: P-3
  - Fitch
    - Long-term debt: BBB-
    - Short-term debt: F3
- Management's decision to acquire Consolidated Papers for a very high price of $4.8 billion was just one of several factors that created the conditions for an unsuccessful venture.

Efficiency

- Notably, Stora Enso did not close any of its North American mills which is reflective of the strategic vision Stora Enso had. Though it did not sell any North American mills, Stora Enso did write off $1.2 billion of its North American book value.
  - Total asset values recorded in the financial statements decreased by 15.17% from 2001 to 2006 due to the impairment charges resulting in the asset turnover ratio similarly increasing by 15.84%. These impairment charges allowed Stora Enso to maintain its asset turnover ratio even with its net sales growing by an average of only 1.34% annually.
    - Net sales increased by 8.03% during this time period.
  - Stora Enso was able to maintain its asset turnover ratio during the 7-year period but still underperformed compared to the median industry group with a mean of .71 and a standard deviation of .035, implying it was able to maintain its asset efficiency with little volatility.

New Page

Profitability

- According to NewPage spokesperson Shawn Hall, “demand for our products is off significantly due to the poor economy – down roughly 12% in the first half of the year.” The company is also facing "rapidly rising, volatile inflationary costs for energy, raw material and transportation" and competition with "low-priced imported paper." NewPage's 30 June 2008 statement announcing the Kimberly plant shutdown also cited the absence of an onsite pulp mill: “While the Kimberly mill has first-class paper machines and is operated by an excellent workforce, it doesn't have a pulp mill to support the paper operations.” The union suggested that by reducing the coated-paper supply, NewPage could drive up the prices its other plants charged.
  - Net profit margins were negative throughout NewPage’s ownership (-0.37% in 2007) to a peak low 2011 (14.22%) in part due to rising wood pulp and third-party transportation costs which increased the cost of goods sold during this period by 77.85% while revenue only grew by 38.09%. NewPage further stated in its 2010 annual report that it had limited ability to pass through cost increases to consumers.
  - Though revenue did increase, net income decreased during the same time period by 6125.00%, as a result of increasing operating costs and debt obligations.
  - The producer price index for general freight trucking shows a rise in cost from January 2007 (113) to December 2008 (123.3) of over 9%; a contributing factor to rising operating costs.
- Management’s alleged decision to purposefully close the Kimberly plant to artificially control supply and increase prices is highly likely given the poor financial condition in which NewPage found themselves with rising operating costs.

Leverage

- Cerberus acquired NewPage (formerly MeadWestvaco) in a $2.3 billion leveraged buyout with Cerberus investing around $200 million with the rest of the deal financed by approximately $1.8 billion in high yield bonds and $300 million of equity.
  - Total debt/EBITA values fluctuated drastically for NewPage from –287.00 to 15.15, with a mean of –35.48 and a standard deviation of 111.02. The values are not consistent with a soundly managed company and is likely a contributing reason Cerberus ended IPO talks after the first two years.
  - NewPage recorded a large Total debt/EBITDA value in 2010 due to increasing debt values and decreasing EBITDA.

        - From 2007 to 2010, NewPage saw its debt increase by 8.53% while EBITDA decrease by a substantial 104.12%.
    - Additional factors contributing to the volatile total debt/EBITDA ratio was NewPage's inability to pay its outstanding bond payments in 2012 worth around $1 billion in face-value which ultimately led to a failed restructuring and bankruptcy.
        - The interest coverage ratio from 2007 (1.95) to 2010 (-0.03) showcases the dire situation in which NewPage found itself; barely being able to generate sufficient cash flows to meet debt interest payments. The restructuring increased the interest coverage ratio in 2007 and 2013 from 1.95 to 4.83 respectively, a result of NewPage's second-lien notes falling more than 20% in value.

<u>Efficiency</u>

- NewPage's decision to idle the Kimberly Mill due to its stated reason of not possessing a pulp mill on-site appears to have decreased NewPage's asset turnover ratio from 0.95 to 0.75 from 2008 to 2009; a significant decrease in net sales of 28.70% also contributed to the change.
- The sale of the Kimberly Mill in 2011 did increase its asset efficiency from 1.03 to 1.13 in 2012 while net sales decreased by 10.59% during the same time period.
    - Comparatively, idling of the mill decreased asset efficiency by 21.05% and selling of the mill increased asset efficiency by 9.71% with respect to changes in net sales.
    - Total asset value fell 55.46% from 2007 to 2013 while net sales actually increased by 40.87% during the same time frame, contributing to NewPage's increasing asset efficiency during the time period.
    - Seven CEO changes in a span of four years highlights long-term planning and execution issues at NewPage compounded Cerberus' insistence on taking NewPage public in the first 2 years.

Verso

<u>Profitability</u>

- Verso created by Apollo Global Management (AGM), presents an interesting scenario of two highly leveraged companies merging. To ensure profitability with looming debt obligations, Verso sold off many of its mills, reducing revenue generation substantially. (The 2016 income statement values are skewed due to the merger of NewPage and Verso.)
    - After the merger from 2017 to 2020, Verso experienced a net decrease in the net profit margin of 509.67% due in large to a significant decline in revenue (44.78%).
    - Of the $1.085 billion or 45% decline in revenue in 2020, 8% ($186 million) can be attributed to the closing of the Luke Mill in 2019, 20% ($489 million) can be attributed to the sale of the Androscoggin and Steven Points mill in 2020, and 6% ($146 million) can be attributed to the idling of the Duluth and Wisconsin Rapids Mill in 2020.
- Further fluctuations in the net profit margin experienced by Verso are due to volatile pricing of wood pulp and overall operating costs stemming from the acquisition of NewPage.
    - From January 2016 to December 2018, the producer price index for pulp, paper, and allied products recorded a 31% increase in value. Verso additionally commented in its 2020 annual report on its limited ability to pass on rising costs to customers.

Leverage

- On September 2015, the New York Stock Exchange (NYSE) suspended trading of Verso (VRS) stock due to price levels dropping to as low as $0.15 and the stock's inability to maintain a price above $1.00 for thirty consecutive trading days. The decline in value was attributed to Verso's incorrect capitalization of its business, which the NYSE said did not meet its minimum requirements of $50 million. Though Verso claimed the valuation drop was unrelated to its debt obligations, the company did enter chapter 11 bankruptcy protection a few months later in January 2016.
- Verso had a standalone debt of $1.2 billion before it merged with NewPage. Post-merger would see the value skyrocket to $2.6 billion with potential sales of $4.5 billion annually. By January 2016, Verso had sold some of its facilities for $62 million to meet its interest payments which had grown to $270 million annually.
  - The Total Liabilities/Total Assets ratio in 2015 was 1.44, representing Verso's significant liabilities before the merger with NewPage. The following year, the value declined to 0.58, as Verso exited bankruptcy and eliminated $2.4 billion of its outstanding debt.
  - Volatility of the company's debt can be best seen through its interest coverage ratio, which fluctuated in value from .57 to 82, with a mean value of 27.28 and a standard deviation of 31.30.
    - By calculating the Altman Z-Score[28] (see Appendix), a method for assessing a company's bankruptcy risk, we observe values in line with possible bankruptcy risk (1.81≤ Z ≤2.99) from 2016 to 2019 and a company in distress (Z < 1.81) in 2015 (.405) and surprisingly in 2020 (1.457). Verso did exit bankruptcy successfully but declining profit margins and declining asset utilization indicate a risk for future bankruptcies.
- Successful management of its debt resulted in Verso being debt-free by the end of 2018 resulting in a Total Debt/EBITDA ratio of zero which stayed close to that value in 2019 (0.04) and 2020 (0.11).
- The differences in NewPage and Verso's handling of debt may be attributable to the increased scrutiny public corporations face. Both companies had high CEO turnover which would impact long-term strategy implementation but Verso faced more regulatory and shareholder oversight which arguably put it under more pressure to prioritize reducing its debt.

Efficiency

- Verso's sale and closing of mills allowed it to better manage its assets in an environment of declining net sales.
  - Whereas NewPage experienced decreases in total asset values but increases in revenue during its tenure, Verso experienced a decrease in both of 54.06% and 56.70% respectively.
  - The asset turnover ratio decreased from 1.75 to .92 (47.42%) from 2015 to 2020. The reason stated by Verso for selling mills was to streamline production and optimize assets which allowed them to record values above the median and mean peer group until 2020.

[28] Altman Z-Score = 1.2*(working capital / total assets) + 1.4*(retained earnings / total assets) + 3.3*(earnings before interest and tax / total assets) + 0.6*(market value of equity / total liabilities) + 1.0*(sales / total assets). Z-scores below 1.81 indicate a distressed company, scores at or between 1.81 and 2.99 indicate a gray zone of bankruptcy risk, and scores above 2.99 indicate a no-default zone.

- Verso’s asset efficiency values are higher than its predecessors in part due to the diversification of its product offerings allowing it to better weather the long-term decline in the industry. Verso’s product line includes printing papers, coated groundwood paper, specialty paper, supercalendered paper and pulp compared to NewPage which produced coated freesheet papers, coated groundwood papers and coated seconds, Stora Enso which produced publication paper, fine paper, packaging products and forest products, and Consolidated Paper which only produced coated printing paper and supercalendered printing paper.

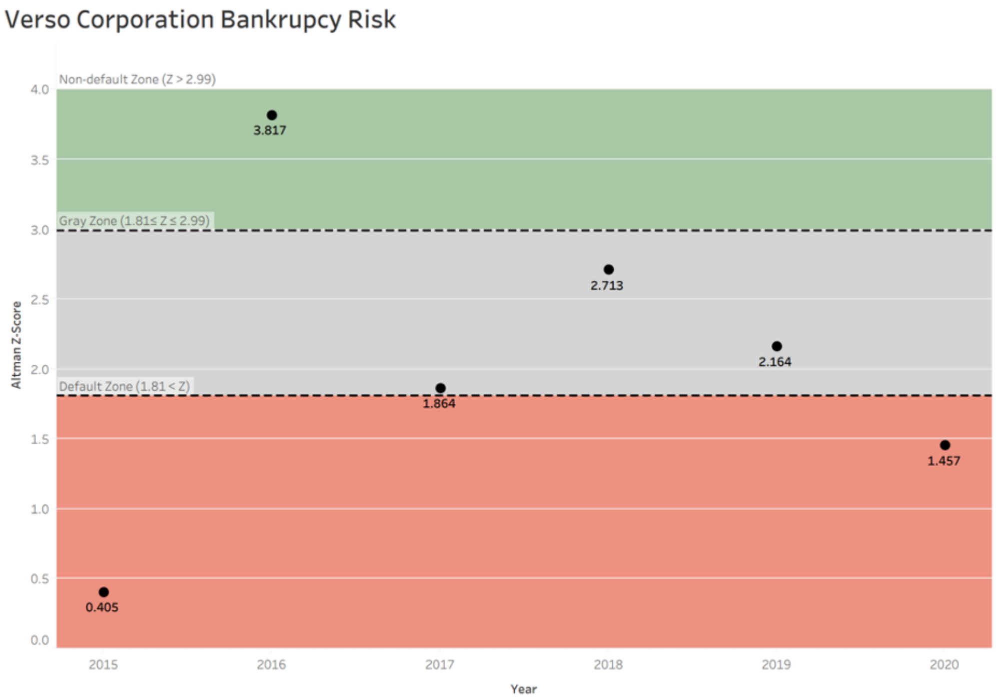


Figure 5. Verso Corporation's Bankruptcy Risk as measured by the Altman Z-Score.

Additional company and industry peer group financial ratios are tabulated in the Appendix.

Additional Comments

Analysis of each company's financial statements revealed multiple instances of prior-period adjustments in subsequent years to income statement and balance sheet values. These changes are explained by the management of these companies in the following ways:

- Due to potential inconsistencies in the methods of calculations, values are not necessarily comparable to those stated by other companies.
- Company reported EBITDA and Adjusted EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on debt; assets being depreciated and amortized often will have to be replaced in the future and are non-cash charges.
- Compliance with new accounting guidelines and oversight of information that was present during the time the statements were prepared.
    - Including instances of over- and under-estimation of realized tax benefits arising from operating losses and acquisitions.

3. DISINVESTMENT IN RESEARCH AND DEVELOPMENT UNDER PRIVATE EQUITY OWNERSHIP

It is instructive to examine successive ownership approaches to research and development. As stated earlier, Consolidated Papers established a research and development division in Biron, Wisconsin. With a headcount greater than 100 at the peak of the operation, the research and development division drove innovation for Consolidated Papers. Headcount stabilized at around 85 people by the end of the 1990s. The subsequent Stora Enso acquisition saw head count reduced to 35 as research and development activities began being centralized in Europe. The NewPage acquisition saw head count grow again to 42 staff members as a result of consolidation with an existing research and development facility at its Chillicothe, Ohio facility and the Biron, Wisconsin facility.

In 2012, NewPage cancelled a significant research and development project[29] to build a demonstration biorefinery to convert wood wastes to diesel fuel at the Wisconsin Rapids pulp mill. This followed the receipt of $50 million in Department of Energy grants. NewPage said the "economics did not justify" continuing the project.

Upon Verso Corporation's acquisition of NewPage's assets including the research and development facility in 2015, it changed the name to Technical Center, signaling the end of any internal innovation, research or development for the remaining mills. Head count was reduced to 12 and, when the facility was closed in 2020, those 12 employees were terminated. SEC filings do not reveal any change in strategy by Verso Corporation to outsource research and development activities, rather the intention to cease any substantive research and development spending entirely.

Verso Corporation's research and development approach is summed up in one generic sentence in its annual SEC filing as follows: the primary function of our research and development effort is to work with customers in developing and modifying products to accommodate their evolving needs and to identify cost-saving opportunities within our operations. This statement has prevailed throughout Verso Corporation's reporting history.

[29] Freeman, D. (2012) Project Independence: Construction of an integrated biorefinery for production of renewable biofuels at an existing pulp and paper mill, Department of Energy project award number DE-PS36-08GO18049. Available at: https://www.osti.gov/servlets/purl/1254304 (Accessed: 9/12/21).

4. CAPITAL EXPENDITURES

Figure 6 charts Verso Corporation's total capital expenditures (in blue) and per paper machine (in red) across all its assets from the inception of Verso Corporation to its most current reported expenditures. Expenditures plummeted to Great Recession era levels in the period 2014–2017 and investments on a per-machine basis were less than half of those at the time of emergence from the Great Recession in 2011. Only following the closure and divesture of the majority of its mill assets is capital expenditure and expenditure per machine in line with an appropriate industry level.

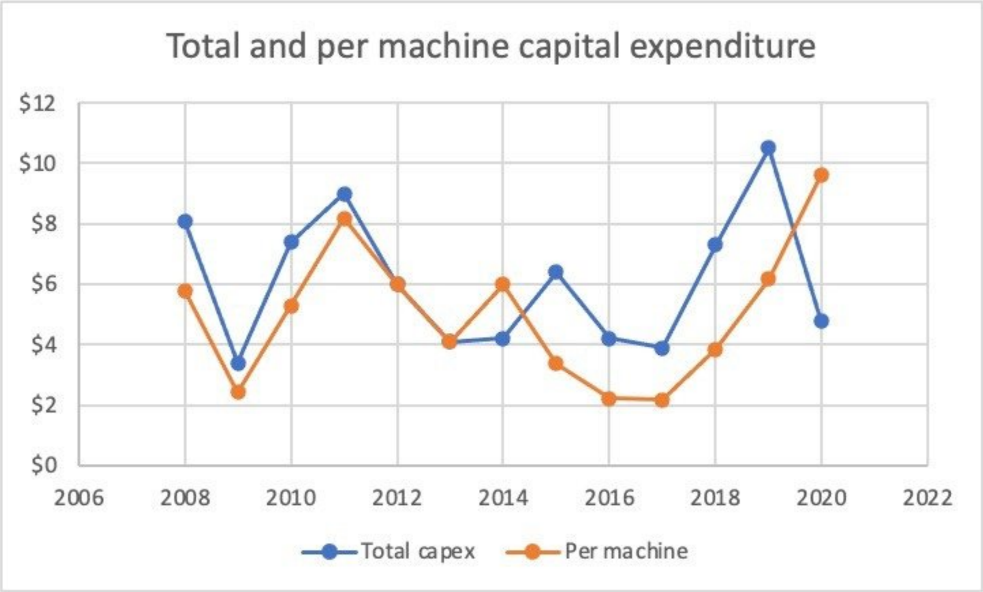


Figure 6. Verso Corporation's total ($millions x10) annual capital expenditure (blue) and average capital expenditure per machine ($millions).

5. CLOSURE OF MILLS

Both NewPage and Verso Corporation closed or idled a number of mills during their respective eras. Figure 7 highlights in red, mills that were closed or idle and, in blue, mills that were sold during the NewPage and Verso Corporation tenures. Notably, Verso Corporation is currently operating only two of ten mills that were in its entire portfolio.

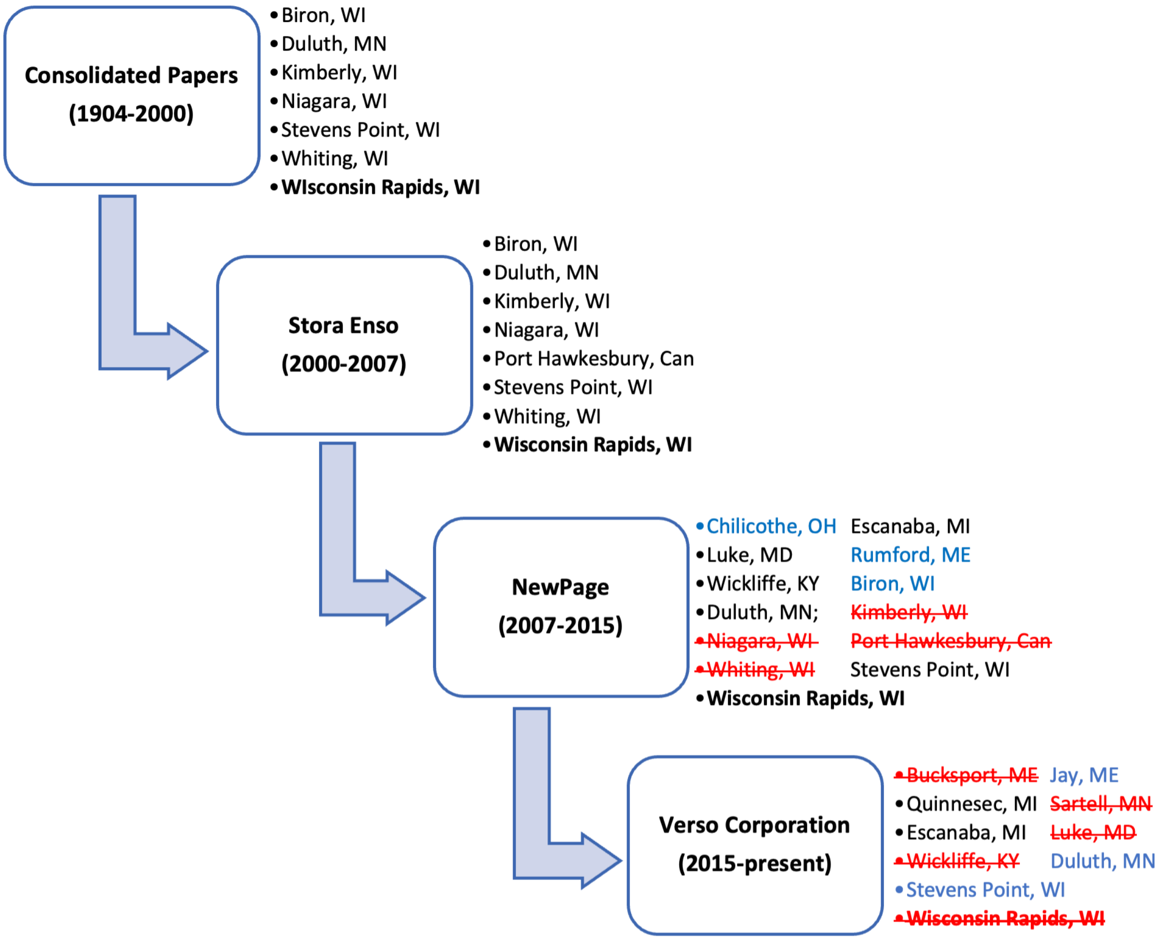


Figure 7. Mills (highlighted in red) that were closed or idled and mills (highlighted in blue) that were sold during the NewPage and Verso Corporation tenures.

6. EXITING COMMUNITY ENGAGEMENT UNDER PRIVATE EQUITY OWNERSHIP

The announced sale of Consolidated Papers revealed for the first time in the mill's history and for multiple generations of mill workers, the uncertainty of new ownership, processes, methods, and culture. All were felt as a real concern in Wisconsin Rapids where Consolidated was headquartered.

For seventy-four years, the company published Consolidated News. The first issue stated, "The News will be placed in the hands of all the employees (sic) at all the mills. The News belongs to the Men. The columns are open to everybody." The last issue was published in October 2000, until the Stora Enso acquisition. Typical content included reports on developments at the divisions; reports of the Employees Benefit Association; safety statistics and reports of injuries; employee activities, including births, deaths, marriages, hunting, fishing and other sports; industry news; labor and political news; local news; historical reminiscences; a travel section in season; local and industry related advertisements; profiles of newspapers and other clients; and opinion pieces. The publication alerted employees to changes in pension rules, tax codes and so on. It also announced promotions and supported a company approach to promote from within.

Consolidated Papers' annual meetings were held in the communities in which the mills were located. The CEO and leadership team rubbed shoulders with the workforce and toured the mills.

As well as the city's major employer, it was also the entity around which the community's vitality, economy and welfare coalesced. During the Consolidated Papers era, it had placed Wisconsin Rapids on the national stage as the smallest city to headquarter a Fortune 500 company. It had donated its Hotel Witter and Eagles Clubhouse properties along the river to the city as well as tranches of land for spaces to become parks along the river. It raised funds to build a public swimming pool and later donated money to renovate the pool. The Mead family was involved for the best part of the twentieth century in the development and improvement of the city's Riverview Hospital. The family donated land, the company and employees provided funding and the hospital was enlarged and reconstructed three times.

While the company was publicly traded, the Mead family members were the major shareholders. Many community members also owned shares (often shares were provided to employees as compensation and the community also bought shares to support the company). As a result, when the company did well, so did the family and community members who held shares. And they tended to hold the shares for the long haul and were proud of their holdings.

After the sale to Stora Enso, the amounts held by the family and community members were essentially cut in half since the deal was half cash. For many this was the first time they had sold any of their shares. By the time of the sale to NewPage, the family and community share-holdings had all been sold. From that point on, the community no longer benefited from being shareholders as they had in the past and shares became held by remote, institutional investors.

Community life had revolved around Consolidated Papers for as long as the community could remember. This came to an abrupt end following the Stora Enso and subsequent acquisitions. Corporate giving declined substantially. By way of example, donations to the city's technical charitable foundation by the Consolidated Papers Foundation exceeded $100,000, by Stora Enso North America and NewPage were greater than $1,000 but less than $5,000 and by Verso Corporation were $0. Similarly, the United Way of Wisconsin Rapids and its successor, the United Way of South Wood and Adams Counties, reported declining donations.

Community and company engagement reversed following the Consolidated sale.

Where once the mill took the lead in community support and development, now parts of the community itself stepped up to take the initiative with the mill and ownership.

The Incourage Community Foundation, established in Wisconsin Rapids in 1994 as a community foundation, engaged the Wisconsin Rapids mill in incumbent worker training, enhancing skills such as leadership, managing for quality, team building and problem-solving, diversity and change management.

Incourage became a shareholder of Verso Corporation to become an active owner, attend shareholder meetings and attempt to work with the company that impacted the employees and community in which the mill was located. Following the announcement of the idling of the Wisconsin Rapids mill, the community organized a reactive response. State legislators Rep Scott Krug and Sen Patrick Testin formed the Wisconsin Rapids Together Task Force. The task force works to assist the community in accessing resources and assistance in the face of the closing of the Verso Corporation mill. The task force also assists in exploring options for the mill and facilitating conversations on the mill's future.

U.S. Senator Tammy Baldwin wrote twice to Verso Corporation regarding the possible divestment of the Wisconsin Rapids mill. In her first correspondence of 30 September 2020, she encouraged the company to sell the Wisconsin Rapids mill to a buyer that was committed to keeping the proceeds from the facility's operations in the community. A month later, on 29 October 2020, she wrote again calling on Verso Corporation's Board of Directors to honor their commitments to their employees and either run the mill or sell it to a buyer that will be committed to the Wisconsin Rapids community.

In April 2021, the City of Wisconsin Rapids secured $144,000 through the Economic Development Administration's CARES Act. The investment is intended to fund a recovery strategy, including market assessments, community participation to set goals for the city's future, redevelopment strategies for the downtown area where the Verso Corporation mill stands, and plans to implement recommendations.

7. A DIFFERENT PRIVATE EQUITY APPROACH AND OUTCOME FOR A SET OF WISCONSIN PAPER MILLS

The establishment and subsequent operation of Expera Specialty Solutions in Wisconsin on 20 May 2013 by private equity group KPS Capital Partners provides a counterpoint to both NewPage's and Verso's tenure of paper mill ownership in the state.

Expera created the largest specialty paper business in North America by combining the four specialty paper mills of Wausau Paper Corp, in Mosinee, and Rhinelander, Wisconsin and of Thilmany Papers in Kaukauna, and DePere, Wisconsin.

Both Wausau Paper and Thilmany Papers originated in Wisconsin around the turn of the twentieth century. By 2005, after a number of ownership changes, Thilmany was acquired by private equity company Kohlberg and Co. A year later it was merged with another Kohlberg portfolio company, Packaging Dynamics.

In 2009, Wausau Paper comprised three principal operating segments: specialty products, printing and writing and towel and tissue and employed approximately 2,300 people with net sales of just over $1 billion. In 2010 the specialty products and printing and writing businesses were consolidated into one single strategic operating element called paper.

7.1. Wausau Paper's plan to create North America's largest specialty paper business

In the early 2010s, Wausau Paper was expanding its towel and tissue segment with an approximately $220 million investment into a tissue machine in Harrodsburg, Kentucky. It was also creating an investment thesis for combining Thilmany and the consolidated paper business of Wausau Paper. Wausau Paper planned to carve out and integrate the two businesses to create one of the world's leading specialty paper businesses with the production food, industrial and release liner paper grades. The action would not impact the towel and tissue segment. In order to realize this strategy, Wausau Paper needed to secure an equity partner to finance the transaction. Wausau Paper leadership interviewed almost a dozen potential equity investors but with the intention of retaining control of the new enterprise through 51% ownership of the acquisition. KPS Capital Partners was selected as the preferred equity partner with Wausau's intent to provide an exit for KPS within five years. KPS had impressed with its successful track record of handling complex carve outs, assembling difficult transactions, and a history of good working relationships with unions.

KPS Capital Partners has its origins in an effort in 1982 to save the Weirton, West Virginia steel mill. When the mill owner threatened closure, the future founder of KPS crafted one of the country's earliest employee buyouts. KPS focused on buying distressed manufacturers, then reviving and reselling them. KPS's approach does not rely on financial leverage to create value but rather generates investment returns through improvement of the strategic position, competitiveness and profitability of the companies which it sponsors.

7.2. Acquisition by KPS Capital Partners

Ultimately, the transaction did not proceed as Wausau Paper intended. Facing falling sales of printing and writing grades, and the closure of a mill, Wausau Paper needed cash to continue to execute on the Harrodsburg tissue machine investment. Wausau Paper committed to divest its specialty business. With the bulk of due diligence done, KPS Capital Partners acquired the specialty business (Rhinelander and Mosinee mills) of Wausau Paper outright. Simultaneously, KPS also acquired the Thilmany specialty paper business from Packaging Dynamics Corporation.

The community response to the acquisitions by KPS was largely positive despite the fact that other private equity companies had closed, sold or broken up other Wisconsin paper companies.

The acquisition received favorable responses from the United Steelworkers union (USW), which represented workers at three of the four mills (De Pere was a non-union mill) and ratified a new four-year collective bargaining agreement. USW commended the four-year contract and praised KPS for its willingness to increase wages, improve health care benefits and lock in retirement security.

USW International Vice President Jon Geenen stated,[30] "These negotiations serve as a model and reminder of the value of working hard together to solve problems in ways that workers, investors and communities all win."

Regional USW Director, Michael Bolton also commented, "The approach KPS took in working through these negotiations to create a world-class paper company should serve as a reminder to hostile short-sighted venture capitalists – and even our state government – that a big part of value creation is people sitting down together to solve difficult problems."

At the time of the acquisitions, Russ Wanke, then Vice President and General manager of Thilmany and future CEO of Expera said,[31] "This is the beginning of an exciting new era for Expera as a new independent company and a strong, stable platform positioned for expansion and growth in the future. I am very excited for our customers, employees and communities, as we intend to invest significant capital and resources into research and development to expand our new company's combined competitive advantages, capitalize on the growth in the specialty paper industry worldwide, and provide innovative products with a superior level of service." Wanke continued, "I look forward to leading such a talented and committed organization into the future. Our entire team is very excited about KPS's commitment to manufacturing excellence and to supporting our growth."

Moody's Investor Services noted[32] in a research note that it expected Expera to realize significant synergies and that its combined metrics would be meaningfully stronger than those reported by the acquired businesses as part of larger organizations. Furthermore, Moody's anticipated substantially leaner administrative costs (as compared to historical corporate allocations), as well as savings in procurement and machine optimization. expected the company to generate annual revenues of approximately $760 million, EBITDA margin to range between 6% and 8%, Debt/ EBITDA, as adjusted to be range from 3.7x to 3.9x, and EBITDA/ Interest to range from 4.0x to 4.5x.

Within the first year, Expera had fully integrated the operations of the four mills and was becoming a more profitable company, focused on innovation and new product development. Indeed, the combination of the two businesses created a very strong competitive position in food packaging grades, industrial specialties and release liners with substantial market presence. It provided the scale to optimize the manufacture of unbleached paper grades. Likely the most significant contributor to improved margins and cash flow for the combined entity was the operational

30 U.S.W. (2013) USW paper workers ratify new agreement with KPS to ensure their mills' future [press release] May 3.

31 KPS Capital Partners, LP. (2013) KPS Capital Partners, LP announces formation of Expera Specialty Solutions; creates the leading specialty paper company in North America [press release], May 20.

32 Moody's Investor Service. (2013) Moody's assigns B3 CFR and Caa1 rating to Expera senior secured term loan, outlook positive, May 30. Available at: https://www.moodys.com/research/Moodys-Assigns-B3-CFR-and-Caa1-rating-to-Experas-Senior--PR_274239 (Accessed: 9/12/21).

optimization of heretofore underutilized pulp production capacity in the Kaukauna facility. KPS created and nurtured a skillful, experienced management team that significantly developed and improved the performance of this new company with a sole focus on specialty markets and high-end fiber solutions.

KPS Capital Partners supported strategic capital investment in a coating line for converting highly engineered release liners for advanced composite, medical and tape markets. The project was also supported by a $15 million state loan to help buy and renovated a building to house the coater. The coating line created 20 new jobs in the area. Significant (in the order of $50 million) environmental investments into the mills in accordance with the requirement of the Major Source Boiler Maximum Achievable Control Technology (MACT) rule.

Expera's leadership and management honed and improved its product differentiation, innovation and the development of long-term customer relationships. Its product range was less exposed to cyclical product areas and had good integration into pulp production with reduced exposure to raw material cost variability.

In 2014, Expera raised $270 million in financing through a recapitalization, including a $75 million cash-flow revolving credit facility and a $195 million term loan. Proceeds were used to refinance outstanding debt, to fund a $35 million dividend and to support company growth. The sum used to support growth was not disclosed.

In November 2016, Expera completed a second recapitalization raising $335 million, including a $50 million senior secured revolving credit facility and a $285 million senior secured term loan. According to a press release, the proceeds of the recapitalization were used to refinance outstanding debt, to fund an $85 million cash distribution to stock holders and to support company growth. Again, the sum committed to support growth was not disclosed. Commenting at the time, Raquel Palmer who led the KPS investment said "What we look for is not the healthy growth businesses that other private equity firms are looking for. We're looking for trouble, and problems that are fixable, that we've had experience working with, so that we can have the confidence to put a plan together to make the business better."

A Moody's Investors Service research note[33] following the recapitalization noted continued margin improvements from 2013–2016 and expected the company to maintain EBITDA margins at 9–10%, reflecting the company's track record of containing costs and ability to pass through cost fluctuations to its customers.

On 23 July 2018, KPS announced it had signed an agreement to sell Expera to Ahlstrom-Munksjö, a Finnish fiber and forest products conglomerate, for $615 million. Russ Wanke noted, "KPS was the only investor with the vision to recognize that two challenged businesses could have a stronger future together, creating one of the leading specialty paper businesses in North America. Working in partnership with KPS, we invested significantly in our people and operations, focusing on employee engagement, manufacturing excellence and providing best-in-class product quality

[33] Moody's Investors service. (2016) Moody's assigns B2 rating to Expera's senior credit facilities, outlook stable, October 19. Available at: https://www.moodys.com/research/Moodys-assigns-B2-rating-to-Experas-senior-secured-credit-facilities--PR_356715 (Accessed: 9/12/21).

and support to our customers. We are grateful to KPS for providing our team with the expertise, capital and resources needed to grow our business and to further our culture of continuous improvement."

At a press conference[34] in Finland on 24 July 2018, announcing the acquisition, Ahlstrom-Munksjö's CEO, Hans Sohlström highlighted the diverse range of industrial and consumer applications that Expera manufactures, its close cooperation with customers, the fact that 30% of its sales come from new products developed in the previous 5 years and summarized that it is a highly innovative company. These traits and qualities, valued by the purchaser, reflect on the KPS ownership period and the leadership, management and employees of Expera.

The four mills currently operate as part of the Ahlstrom-Munksjö. In 2021, a consortium consisting of Ahlström Capital, funds managed by Bain Capital and others completed a tender offer for all shares in Ahlstrom-Munksjö. At that point, Ahlstrom-Munksjö became a privately held company.

7.3. Differentiators in the case of Expera

Prior to the acquisition, the four mills separately were struggling. The acquisition itself brought the opportunity for scale and efficiency gains. This is exactly in line with the strategy of KPS outlined earlier and indeed with a number of other private equity companies.

But there are several key differences that mark the post-acquisition era with KPS versus New Page and Verso. First, leadership executed on its strategy, combined company cultures quickly, sought out efficiencies and opportunities for process intensification. Second, the company built and expanded a strong customer base by custom manufacture of complex, technical "specialty" paper grades. Expera's infrastructure of relatively small, more nimble paper machines made this easier to do than could be done at Wisconsin Rapids. Third, the principle of collaboration with customers to help meet technical and performance requirements in a product was highly ingrained and promoted in Expera. In addition, innovation and development of new product lines such as food wraps that responded to environmental issues such PFASs helped build new customer bases. Fourth, capital investment in new silicone coating capability opened up new business opportunities related to the manufacture of complex paper-based composites. Fifth, operational efficiencies, new product development and expanded customer positioned the company as an attractive buy-out proposition for a larger company seeking market synergies in the specialty paper space. It is notable that the sale price of $615 million represents a much smaller valuation than Verso Corporation, reflecting the much smaller scale of the operation. Additionally, Expera was not faced with a huge decline in demand but worked to increase market development with new products.

[34] Ahlstrom-Munksjö. (2018) Ahlstrom-Munksjö to acquire U.S. specialty paper producer Expera Specialty Solutions, July 24. Available at: http://qsb.webcast.fi/a/ahlstrommunksjo/ahlstrommunksjo_2018_0724_info/#/webcast (Accessed: 9/12/21).

8. CONCLUSION

This analysis has led to the identification of key indicators of potential instability that could be used by communities so as not to be caught unaware but rather anticipate, respond and rally to mitigate significant economic and social turmoil caused by ownership changes of local employers.

The key indicators are as follows:

Repeated changes of ownership
Since its construction in 1904 till its sale in 2000, the Wisconsin Rapids mill had been in the ownership of the same company. However, in the ensuing twenty-one years, the mill had another three owners. At the time of writing, it is probable that another ownership transition will take place, bringing the total to four.

Frequent changes of leadership
Leadership turnover at NewPage and Verso Corporation occurred frequently, indicative of disagreement and variance in opinion of leadership, board members and shareholders. The CEO role at NewPage was filled seven times during its decade-long existence. One CEO, Mark Suwyn served as interim CEO, twice and as CEO (average tenure: 1.4 years). The CEO role at Verso has been filled seven times, to date, during its fourteen-year existence, not including a period of time when an Office of the Chief Executive was formed until a CEO was appointed following the retirement of David Paterson (average tenure: 2.1 years). In contrast, the Chief Executive position at Consolidated Papers was filled only 6 times in its 96-year history (average tenure: 16 years). Also, since Stora-Enso's formation in 1998, the CEO position has been filled four times (average tenure: 5.75 years). Notably, at Expera, one individual remained CEO from its inception through its transformation and ultimately to its sale five years later.

Unconventional alignment of board member expertise with the company's core competencies
A significant number of board members at Verso Corporation have not had paper-manufacturing company experience but rather came from private equity backgrounds.

Post-bankruptcy, Verso's board comprised the following: Robert Amen (served as president of International Paper from 2003 to 2006). He was appointed a director of Verso in 2015. Alan Carr (founder and Chief Executive Officer of fiduciary services firm that supports the investment community in complex financial situations). Eugene Davis (chairman and Chief Executive Officer of a private consulting firm specializing in turnaround management, merger and acquisition consulting, and strategic planning advisory services for public and private business entities). Chris DiSantis (Verso Chief Executive Officer with manufacturing experience in the aerospace, defense, energy and industrial markets). Jerome Goldman (former international tax planning specialist at

Ernst and Young). Steven Scheiwe (founder and President of a consulting firm providing analyses, management and busines development services to companies across a broad range of industries). Jay Shuster (managing member of a private consulting firm that advises businesses on strategic and operational planning, mergers and acquisitions, and turnaround management issues. Shuster spent 21 years at RockTenn (now WestRock) including ten years as Chief Operating Officer and had in-depth knowledge of the paper industry and business).

Recapitalization actions to pay shareholder dividends

Within months of its acquisition, Verso re-capitalized the business to pay a shareholder dividends of $250 million. KPS adopted a similar strategy in the case of Expera.

Proxy actions by activist shareholders

Proxy actions generally signal that a shareholder or group of shareholders is dissatisfied with a company's business decisions or its corporate governance and is seeking to exert control. Regardless of motivation, proxy actions distract the senior management team and disrupt the company's day-to-day operations. Verso experienced two proxy actions, once in 2017 and again in 2020.

High levels of indebtedness

The private equity business models applied at NewPage and Verso Corporation placed little emphasis on strategic and capital investments. Rather the use of high levels of debt and dividend recapitalizations put pressure on leadership to cut costs by closing mills and reducing employee headcount. By contrast, Expera accrued manageable levels of debt against a backdrop of increasing productivity and sales while to continuing to contain costs and pass through cost increases to its customers.

Pursuit of a business strategy that significantly deviates from competitors and other companies in a peer group

Throughout 2017–2018, Verso's sales benefited from competitor companies exiting the declining printing and writing markets to focus on new opportunities, such as packaging. However, in exploiting the tight market conditions that ensued as competitors exited, Verso missed the opportunity to re-position itself away from those declining markets. In the period, MidWest Paper invested $30 million to convert its combined Locks, Wisconsin facility from one that produced printing and writing grades of paper to one that produces brown paper for packaging. SAPPI completed a $200 million investment in September 2018 to rebuild a paper machine to add new paperboard packaging grades to its mill portfolio. Copamex converted a graphics paper machine at its Anahuac mill in north central Mexico to recycled linerboard. In September 2017, International Paper committed $300 million to convert its uncoated freesheet paper machine in Riverdale, Alabama to produce high quality whitetop linerboard and container board.

Use of chapter 11 bankruptcy as a re-organization tool

NewPage acquired the mill assets of Stora Enso shortly before the onset of the Great Recession. It became almost immediately over-burdened with debt as a result of the leveraged buy-out at the same time as printing and publication demand again declined. With no cash generation, and no capability or strategy to evolve paper grade production to other in-demand grades, NewPage entered bankruptcy to restructure its debt.

Similarly, Verso Corporation acquired certain International Paper assets with high levels of debt, and dividends paid reduced cash on hand that might otherwise have been used to reposition mills or paper machines to manufacture other more in-demand products. Verso also struggled through the Great Recession and acquired NewPage following its emergence from bankruptcy. Verso, like NewPage, used chapter 11 bankruptcy as a mechanism to refinance their self-imposed levels of debt.

Leadership compensation and performance benefits that incentivize short term cash generation

Senior leadership employment contracts and other mandatory SEC filings provided insight into future direction at Verso. Notably, Leslie Lederer was appointed CEO on an interim basis with the goal of selling either some of the assets or the company in its entirety. Such filings provide clear evidence of intent.

Withdrawal of engagement with the community in which the entity operates

The transition from proximate to remote ownership as Consolidated Papers was acquired by Stora Enso began the decline of company involvement and engagement in the community and an adaptation of company values away from stakeholders towards shareholders. Community engagement inverted following the sale of Consolidated Papers. Where once the company had been a foundational cornerstone of the community, after the sale certain community stakeholders realized the need to proactively engage at the corporate level to attempt to re-ignite and secure the company's corporate citizenship in the community.

Additionally, for capital intensive, manufacturing businesses the following are noted:

De-emphasizing the role of, and resources for, research and development activities

NewPage and, in particular, Verso Corporation de-emphasized the role of research and development in their businesses. Research and development headcount was reduced and the Research and Development Division founded by Consolidated Papers was relegated to a Technical Center by Verso Corporation and then closed. In contrast, Expera had a clear focus on innovating new products that were responsive to market needs as well as developing alternatives to products that were coming under scrutiny from environmental regulators.

Making insufficient capital expenditures to adequately maintain and/or reposition key assets to align with trends in the market place

Capital-intensive manufacturing businesses require significant and regular capital investment to maintain and update production equipment. Monitoring capital investment over time provides insight into how robust and appropriate is that investment. In the period 2014–2017, Verso's capital expenditures plummeted to Great Depression era levels and investments on a per-machine basis were less than half of those at the time of emergence from the Great Recession in 2011.

Lack of long-term commitments necessary for the development of new products even without capital expenditure

The development of new products and applications requires adherence to a medium (2–3 year) term plan to bring those products to customers. Without such commitment, new customers may not be acquired and existing customers lost. This was a concern at Verso. In contrast, Expera took considerable time and effort to retain customers, grow new markets and new customer bases.

None of these indicators in their own right necessarily imply that a significant business decision and its consequences are imminent but when elements are combined, it is likely the probability of a significant event will occur. We offer these indicators as markers that may give community stakeholders the foresight and knowledge to engage, interact, and plan in a way that is most meaningful to their communities and the employers present in them.

APPENDIX

Financial Ratios

Company Financial Ratios 1996–2020

Fiscal year-end Dec 31

	Ratios	Consolidated Papers*				
		'96	'97	'98	'99	'00
Profitability	Net Profit Margin	11.60%	7.03%	5.15%	3.59%	6.51%
	ROA	8.03%	4.02%	2.93%	1.85%	0.93%
Leverage	Total Debt/EBITDA	0.25	0.77	0.80	0.58	10.43
	Total Debt/Equity	0.11	0.66	0.78	0.59	0.93
	Total Liabilities/Total Assets	0.50	0.61	0.64	0.64	0.61
	Interest Coverage Ratio	70.57	22.66	13.71	16.75	6.17
Liquidity	Cash Ratio	0.08	0.06	0.01	0.02	0.05
	Current Ratio	2.11	1.94	1.74	1.08	1.24
	Quick Ratio	1.21	0.96	0.89	0.54	0.66
Efficiency	Asset Turnover	0.69	0.57	0.57	0.51	0.14
	Inventory Turnover	8.69	8.08	8.37	8.79	2.31
	Receivables Turnover	11.19	11.25	12.39	12.79	3.88

*Values are calculated from Consolidated Paper's annual 10-K statements (1996-2000)

	Ratios	NewPage*							
		'07	'08	'09	'10	'11	'12	'13	'14
Profitability	Net Profit Margin	-0.37%	-2.69%	-9.92%	-18.24%	-14.22%	-1.96%	-0.07%	#N/A
	ROA	-0.23%	-2.56%	-7.47%	-17.46%	-14.61%	-2.22%	-0.09%	#N/A
Leverage	Total Debt/EBITDA	10.90	6.08	15.15	-287.00	1.81	2.58	2.15	#N/A
	Total Debt/Equity	4.44	18.47	216.43	-4.81	-0.21	0.60	0.47	#N/A
	Total Liabilities/Total Assets	0.86	0.96	1.00	1.19	1.36	0.63	0.52	#N/A
	Interest Coverage Ratio	1.95	1.72	0.70	-0.03	0.35	7.22	4.83	#N/A
Liquidity	Cash Ratio	0.22	0.01	0.01	0.02	#N/A	0.13	0.24	#N/A
	Current Ratio	1.74	1.72	1.98	2.08	#N/A	2.32	2.41	#N/A
	Quick Ratio	0.83	0.56	0.69	0.79	#N/A	0.91	0.90	#N/A
Efficiency	Asset Turnover	0.89	0.95	0.75	0.96	1.03	1.13	1.39	#N/A
	Inventory Turnover	6.03	5.99	4.71	5.76	#N/A	#N/A	0.00	#N/A
	Receivables Turnover	12.35	13.85	10.82	12.23	#N/A	#N/A	14.41	#N/A

* Values are calculated from NewPage annual 10-K reports (2007 to 2013). The 2014 report was not available for review

	Ratios	Verso*					
		'15	'16**	'17	'18	'19	'20
Profitability	Net Profit Margin	-13.52%	45.10%	-1.22%	6.38%	2.86%	-7.43%
	ROA	-23.67%	50.21%	-1.67%	9.97%	4.12%	-6.87%
Leverage	Total Debt/EBITDA	18.82	0.21	1.65	0.00	0.04	0.11
	Total Debt/Equity	-2.43	0.38	0.25	0.00	0.01	0.01
	Total Liabilities/Total Assets	1.44	0.58	0.57	0.47	0.42	0.45
	Interest Coverage Ratio	0.57	24.55	3.03	9.55	82.00	44.00
Liquidity	Cash Ratio	0.00	0.02	0.02	0.08	0.14	0.79
	Current Ratio	0.23	2.37	1.68	1.90	2.04	2.69
	Quick Ratio	0.08	0.78	0.63	0.71	0.70	1.40
Efficiency	Asset Turnover	1.75	0.49	1.37	1.56	1.44	0.92
	Inventory Turnover	5.73	2.42	5.42	5.93	5.39	4.31
	Receivables Turnover	14.59	5.36	12.24	13.24	13.89	11.42

* Values are calculated from Verso annual 10-K reports (2015-2020)
** 2016 Income Statement values are representative of pre- and post-successor values (July'16 to Dec '16)

Median Industry Peer Group Financial Ratios 1996–2020

Fiscal year-end Dec 31

	Ratios	Median Industry Peer Group*																								
		'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20
Profitability	Net Profit Margin (%)	4.34	4.27	3.17	4.49	3.79	2.87	2.13	1.78	2.41	2.41	2.45	4.14	3.58	0.91	4.85	4.66	3.92	3.86	4.42	4.49	5.26	4.49	5.05	4.21	1.91
	ROA (%)	16.48	16.32	14.72	14.21	12.97	12.12	12.78	10.32	11.57	11.84	10.75	12.30	11.66	10.19	13.28	13.64	13.94	12.10	12.72	14.36	14.34	12.48	13.91	14.01	10.75
Leverage	Total Debt/EBITDA	1.64	1.39	1.40	1.93	2.49	2.55	2.04	2.09	2.52	2.19	2.92	1.78	2.08	2.51	1.54	1.79	1.59	1.76	2.11	1.99	1.94	2.03	1.93	1.99	3.05
	Total Debt/Equity	1.12	1.25	1.28	1.34	1.51	1.42	1.44	1.66	1.63	1.63	1.76	1.73	1.62	1.76	1.41	1.40	1.45	1.55	1.58	1.89	1.65	1.66	1.58	1.55	1.68
	Total Liabilities/Total Assets	.57	.56	.59	.57	.60	.61	.63	.62	.62	.61	.64	.63	.62	.64	.58	.59	.61	.62	.63	.65	.64	.62	.61	.61	0.63
	Interest Coverage Ratio	4.62	4.35	3.48	3.82	3.13	2.32	3.13	2.80	2.39	2.94	2.03	3.88	3.43	3.21	5.27	5.44	7.50	6.94	7.51	8.26	7.19	5.80	7.06	6.46	4.90
Liquidity	Cash Ratio	0.13	0.18	0.19	0.11	0.09	0.09	0.16	0.17	0.25	0.21	0.16	0.13	0.13	0.29	0.41	0.41	0.34	0.31	0.26	0.24	0.16	0.15	0.19	0.13	0.47
	Current Ratio	1.77	1.90	1.97	1.76	1.81	1.60	1.73	1.65	1.72	1.70	1.65	1.83	1.78	1.93	2.02	1.97	2.04	1.89	1.83	1.88	1.75	1.61	1.64	1.71	1.85
	Quick Ratio	1.08	1.20	1.25	1.08	1.06	1.00	1.11	1.01	1.15	1.14	1.12	1.15	1.11	1.17	1.32	1.31	1.30	1.26	1.17	1.09	1.05	0.98	1.08	1.01	1.21
Efficiency	Asset Turnover	1.27	1.30	1.23	1.18	1.16	1.12	1.12	1.11	1.13	1.18	1.12	1.04	1.10	1.03	1.09	1.14	1.11	1.09	1.03	1.05	1.07	1.07	1.11	1.08	0.94
	Inventory Turnover	6.64	6.73	6.62	6.57	6.11	6.39	6.41	6.02	6.30	6.46	6.91	7.41	6.87	6.21	7.12	6.65	6.24	6.16	6.02	5.82	5.43	5.65	5.68	5.30	5.55
	Receivables Turnover	7.91	8.12	7.65	7.06	7.02	7.23	7.74	8.07	7.92	7.77	7.50	7.51	7.98	7.86	7.97	7.74	7.76	7.88	7.96	7.99	8.08	8.15	8.31	8.05	8.62

* Financial Ratios Industry Level by WRDS. Industry Level Financial Ratios by Fama-French 49 Industries, 1996-2020. Wharton Data Services, 25 July 2021, https://wrds-www.wharton.upenn.edu/pages/get-data/financial-ratios-suite-wrds/financial-ratios/financial-ratios-firm-level-without-ibes-subscription/

Mean Industry Peer Group Financial Ratios 1996–2020

Fiscal year-end Dec 31

	Ratios	Mean Industry Peer Group																								
		'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	
Profitability	Net Profit Margin (%)	-194.50	-13.33	-21.95	3.57	2.16	1.94	3.47	0.28	2.55	2.09	2.43	4.48	3.85	0.96	6.11	7.32	3.97	3.62	4.01	4.42	6.55	4.35	3.67	2.98	1.35
	ROA (%)	10.11	14.81	13.03	13.86	12.27	12.34	12.59	11.66	10.83	12.18	12.68	13.38	13.39	12.14	15.00	14.91	15.12	13.07	13.25	15.10	14.91	14.02	14.37	14.12	11.32
Leverage	Total Debt/EBITDA	5.14	0.38	5.62	3.30	3.03	3.19	3.14	2.57	3.82	0.83	4.12	1.55	3.23	5.68	1.69	1.80	2.11	-6.47	2.64	2.08	2.60	2.76	2.79	2.54	4.24
	Total Debt/Equity	1.23	2.19	1.25	1.96	2.13	-1.66	-0.17	5.15	3.42	3.90	4.42	3.42	-0.65	4.00	3.01	0.92	1.19	1.44	1.41	4.80	6.90	6.93	4.50	-1.16	9.15
	Total Liabilities/ Total Assets	.64	.57	.57	.56	.58	.60	.61	.62	.61	.61	.63	.61	.61	.64	.59	.56	.59	.62	.63	.63	.68	.64	.59	.60	0.62
	Interest Coverage Ratio	37.41	35.00	15.14	30.51	7.94	70.38	9.84	13.54	11.21	10.74	25.45	5.04	6.64	4.94	9.30	9.89	12.99	14.26	12.67	64.02	82.58	62.58	99.93	26.62	142.44
Liquidity	Cash Ratio	0.40	0.61	0.67	0.47	0.38	0.42	0.44	0.30	0.33	0.32	0.28	0.25	0.21	0.29	0.48	0.41	0.39	0.45	0.40	0.36	0.34	0.36	0.38	0.35	0.51
	Current Ratio	2.07	2.30	2.44	2.23	2.10	2.08	2.06	1.87	1.89	1.87	1.81	1.89	1.87	2.03	2.21	2.17	2.30	2.23	2.11	2.06	1.95	1.94	1.83	1.85	2.00
	Quick Ratio	1.36	1.59	1.71	1.55	1.43	1.45	1.44	1.22	1.25	1.21	1.20	1.22	1.15	1.24	1.45	1.38	1.44	1.41	1.32	1.27	1.17	1.19	1.14	1.11	1.25
Efficiency	Asset Turnover	1.31	1.32	1.24	1.23	1.23	1.20	1.16	1.14	1.18	1.19	1.20	1.21	1.21	1.10	1.17	1.16	1.17	1.11	1.10	1.16	1.14	1.15	1.16	1.13	0.94
	Inventory Turnover	7.42	8.07	7.73	7.55	7.24	7.90	8.35	7.87	8.02	8.04	8.48	8.51	8.11	7.05	7.93	7.78	7.23	6.89	6.95	6.64	6.33	6.60	6.54	6.59	6.45
	Receivables Turnover	8.15	8.18	7.44	6.95	6.90	7.02	7.35	7.66	7.77	8.25	8.03	7.93	8.29	8.10	8.73	9.42	8.46	8.44	9.04	9.26	9.69	10.10	10.70	8.88	9.04

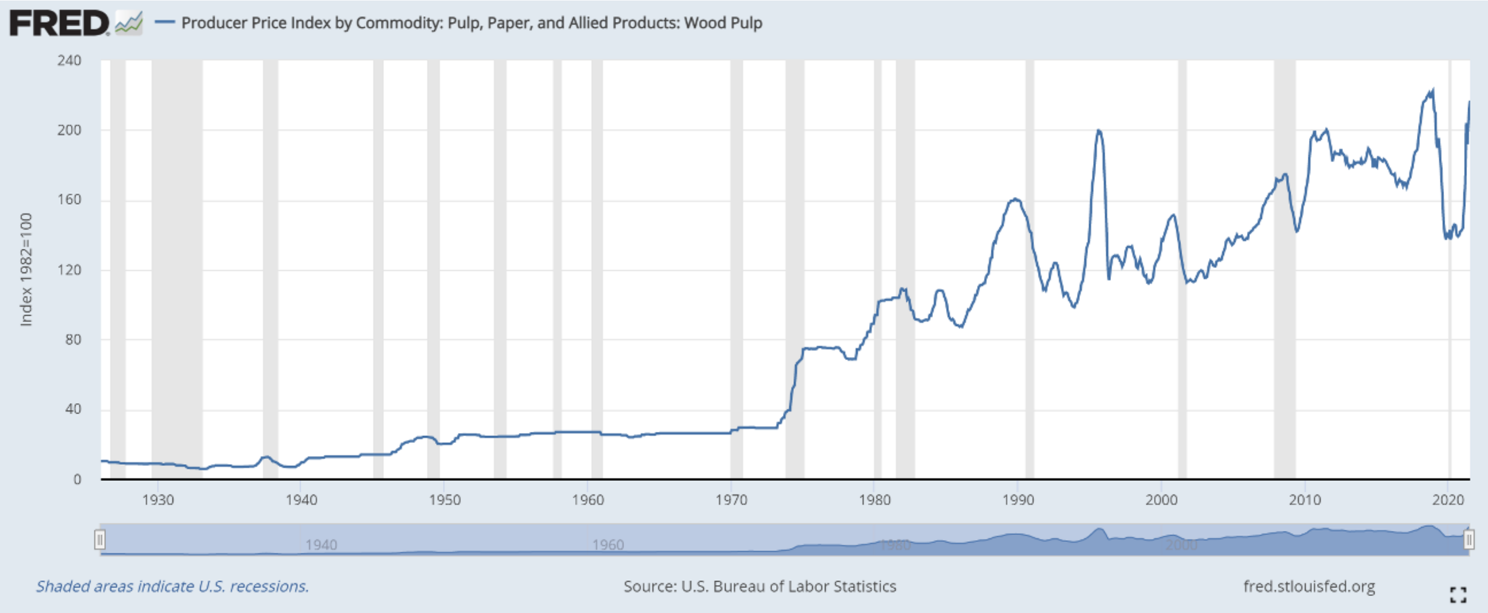
* Financial Ratios Industry Level by WRDS. Industry Level Financial Ratios by Fama-French 49 Industries, 1996-2020. Wharton Data Services, 25 July 2021, https://wrds-www.wharton.upenn.edu/pages/get-data/financial-ratios-suite-wrds/financial-ratios/financial-ratios-firm-level-without-ibes-subscription/

Period Average Value Financial Ratios 1996–2020

Fiscal year-end Dec 31

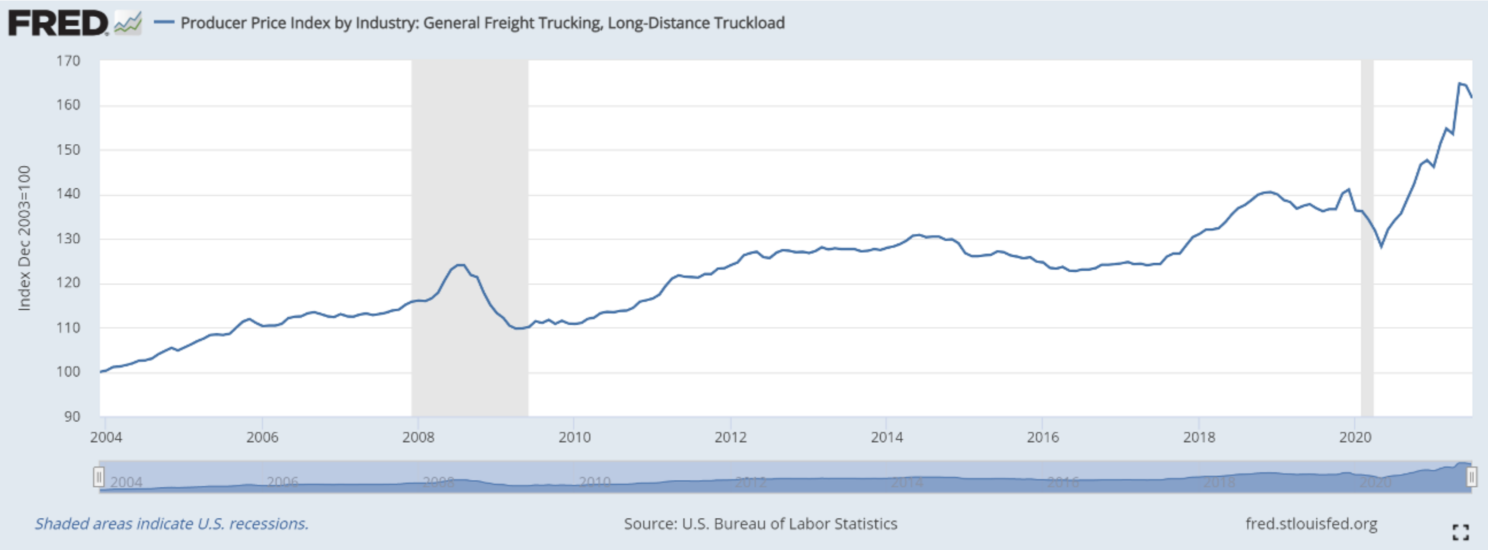
Period Average Values		Consolidated Papers	Stora Enso	NewPage	Verso	Cumulative	Median Peer Group	Mean Peer Group
		1996-2000	2001-2006	2007-2014	2015-2020	1996-2020	1996-2020	1996-2020
Profitability	Net Profit Margin	6.78%	2.62%	-6.78%	5.36%	1.43%	3.66%	-6.15%
	ROA	3.55%	1.89%	-6.38%	5.35%	0.69%	13.04%	13.22%
Leverage	Total Debt/EBITDA	2.57	2.50	-35.48	3.47	-8.32	2.01	2.58
	Total Debt/Equity	0.61	0.70	33.63	-0.30	10.04	1.54	2.79
	Total Liabilities/Total Assets	0.60	0.56	0.93	0.65	0.70	0.61	0.61
	Interest Coverage Ratio	25.97	6.08	2.39	27.28	14.45	4.71	32.84
Liquidity	Cash Ratio	0.05	0.09	0.10	0.18	0.11	0.20	0.39
	Current Ratio	1.62	1.45	2.04	1.82	1.74	1.80	2.05
	Quick Ratio	0.85	N/A	0.78	0.72	0.78	1.13	1.33
Efficiency	Asset Turnover	0.50	0.71	1.02	1.26	0.89	1.12	1.17
	Inventory Turnover	7.25	N/A	4.50	4.87	5.50	6.32	7.45
	Receivables Turnover	10.30	N/A	12.73	11.79	11.62	7.80	8.39

Producer Price Index: Pulp, Paper, and Allied Products: Wood Pulp



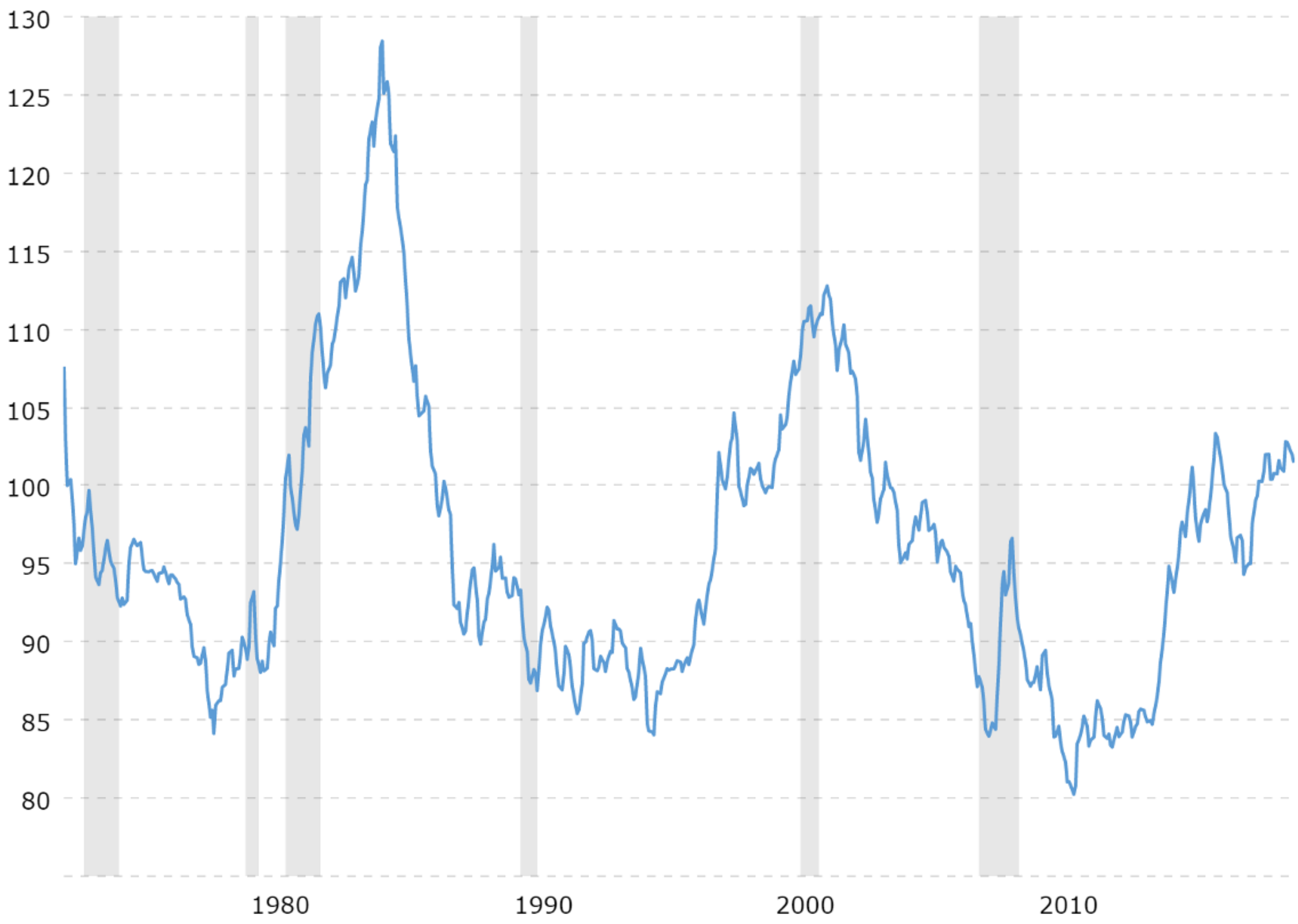
Source: U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Pulp, Paper, and Allied Products: Wood Pulp [WPU0911], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WPU0911, August 30, 2021.

Producer Price Index: General Freight Trucking, Long-Distance Truckload



Source: U.S. Bureau of Labor Statistics, Producer Price Index by Industry: General Freight Trucking, Long-Distance Truckload [PCU484121484121], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCU484121484121, August 30, 2021.

U.S. Dollar Index



Source: U.S. Dollar Index - 43 Year Historical Chart | MacroTrends