

Linerboard Prices Unchanged

Linerboard prices did not change in November.

The North American containerboard market remains stable, with linerboard prices holding firm but slight decreases in export prices. Demand remains soft.

Price Increase Announcements

Major integrated producers PCA, IP, GP and Pratt have all announced \$70 per ton price increases for linerboard and \$90 per ton increases for medium effective January 2025. Announcements are signals to the market. Box prices increase once the RISI index reports that liner and medium buyers are paying more. This announcement mirrors a similar announced increase last year at this time for January 2024.

*That increase eventually went through in March, though there was little evidence, even in the RISI publication article discussing the increase, that prices had in fact moved. Regardless, many box makers are tied to the index with their vendors and usually end up paying more for raw material when the index reflects these changes. If this increase were to take effect, it would result in an **11%** increase in raw material to box makers.*

The integrated producers are not attributing increased demand for their products, or any supply constraints to justify this increase. Instead, they are citing inflation and cost pressures that are driving down margins.

We believe this indicates that the ongoing consolidation in North American corrugated market allows the largest producers to dictate prices outside of the normal supply and demand dynamics. Clearly, they feel they are in a strong

enough position on the supply side to dictate an increase where there is no discernable demand.

Market Trends

*U.S. containerboard production remains steady. ND Paper and McKinley Packaging idled machines producing medium, further tightening supply for that segment. Box volume increased slightly in 2024, but demand is sluggish. Domestic corrugated box shipments rose marginally (**0.2%**) through three quarters of 2024. Export demand for U.S. kraft linerboard shows signs of decline.*

*Overall industry box shipments rose **0.8% year over year** with fluctuations:*

- July: Shipments jumped **7.1%**.
- August: Shipments fell **3.1%**.
- September: Shipments dropped **1%**.

This is a market still finding the bottom of the demand curve.

PCA was the first to announce an increase. The company continues to outperform all its closest competitors capturing significant market share, principally from IP. PCA sells very little of its mill production outside its network and the increased demand they are seeing might justify an increase.

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By signaling a willingness to raise prices to their internal customer base they provide cover to their less efficient competitors to follow suit.

Two of the largest North American integrated producers IP and Smurfit Westrock are dealing with serious distractions in this down market. IP saw a 9% decline in box shipments year over year while realigning their strategy toward “value over volume” and steadily giving up market share to PCA. Smurfit Westrock is in the throes of combining operations to bring its NA performance in line with its European operations.

From where we stand IP, GP, and Pratt have little to offer customers for the higher prices they wish to command.

Industry News

Hood Packaging acquired TC Transcontinental’s industrial packaging operations for \$95 million. The acquired operations located in Thomasville NC and Ontario Canada generated approximately \$50 million in revenues in the 12 months ending July 28, 2024. This is in addition to the July purchase of the packaging assets of Independent II in Louisville, KY.

The Path of Most Resistance

At Tavens we take on tough projects and execute them well. This is not just something we do; it is at our core. It is something we love to do.

Organizing our business to meet this challenge, we choose to pursue a business model focused on our customer. This means being highly responsive to customer demands. This strategy requires a tradeoff. Investment in equipment and facilities that deliver responsiveness over productivity means the per unit cost of the packaging we produce may be marginally higher. Responsiveness over lowest cost production.

We do this because we believe the marginal benefit of improving productivity and lowering cost is negligible to our customers. At some point in the past the improvements in productivity and integration were substantial, but these gains are now ubiquitous. The marginal benefit of producing boxes at 400 pieces a minute versus 200 pieces a minute no longer accrue to our

customers. The industry chases speed and volume for speed and volume’s own sake.

Our customers do not care about speed and volume. They are focused on shipping their products. The key problem they face with corrugated packaging is unreliability of supply and the cost of storing an inexpensive product that consumes a lot of square footage. To protect themselves, buyers are forced to buy and hold corrugated inventory. This is expensive.

Tavens set out to solve this problem. It is a tough problem. It requires sophisticated systems and strong processes executed at a high level by talented people. It requires an intense engagement with the customer, every customer. Collaboratively developing flexible, responsive and customized solutions, on a box-by-box basis, that ensures our customers can always ship their products while reducing the cost of owning corrugated packaging.

Not every customer needs this approach. But as we see increasing consolidation and a continuous drive toward longer runs and higher MOQ’s (minimum order quantities), we see a large segment of the market forced to bear the burden of bloated corrugated inventories just to ensure they have what they need - when they need it - to ship their products.

We know there is a better way. Not easy, better. It demands a consistent commitment to communicating effectively and transparently with customers and executing internally at a very high level.

The work is often difficult. Recognizing we have engaged in a difficult undertaking helps us maintain our perspective. If it were easy, everyone would do it. By choosing the tougher path we willingly go where others will not. This is how we stand apart and make a real difference to our customers.

