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This paper trail leads to big money

Paper production for the Swiss franc and other major world currencies bankrolls profits for North Vancouver company

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Chad Wasilenkoff has taken on the challenge of shoring up the security of some of the world's major banknotes.

It's a top priority for the world's national banks, and it's paying considerable dividends to the North Vancouver contrarian investor.

Wasilenkoff bought 135-year-old Landqart AG from Mercer International Inc. last August. The company produces the currency paper for the Swiss franc, the euro and the currencies for more than 25 other countries.

Buying the company required that Wasilenkoff undergo countless RCMP and Interpol security and background checks. It even created a minor international incident when several European national banks called the Bank of Canada to confirm his identity.

Wasilenkoff was looking for a new sector to invest in after his last bet – uranium – became one of the resource sector's hottest commodities. The per-pound price of uranium has skyrocketed to around \$120 from \$11 five years ago.

“It just got so crazy that it's made it difficult to find any good assets, since everybody is scouring the planet for them, so it's no longer a contrarian type of investment,” said Wasilenkoff, former president and CEO of Titan Uranium Inc. (TSX-V:TUE).

His research led him to the paper industry, which has been hammered hard by low prices and high pulp and energy costs. For a contrarian, the sector looked ripe for investment.

After some digging, Wasilenkoff found an opportunity in specialty paper mills like Landqart and Dresden Papier, a German wallpaper mill in Heidenau.

While both mills were profitable for Mercer, the company had decided to divest itself of its paper assets and focus exclusively on the pulp sector.

“Because everyone views the paper industry as so bad, [companies] are throwing the baby out with the bathwater,” he said.

Wasilenkoff brought both mills under his management and formed Fortress Paper Ltd., which is headquartered in North Vancouver. Both companies last year made a combined \$123 million in revenue and EBITDA of \$11.4 million.

Despite the multifold challenges facing the global paper sector, Wasilenkoff plans to push those numbers to \$200 million and \$20 million, respectively, in three years.

According to Resource Information Systems Inc., between 2000 and 2005, more than 100 paper mills closed in North America and several companies either closed or sold their paper divisions.

The circumstances, according to Wasilenkoff, scared most potential investors away from paper.

Recalling one meeting, he said: "I walked in. I put my presentation on the table and it said, 'Fortress Paper.' They said, 'Sorry, we didn't know it was paper. ... I know we've made a lot of money with you in the past, but we have no interest in pulp and paper.'

"And these were resource specialists. That was one of the best meetings I've had that absolutely told me I'm in the right sector."

Wallpaper and security paper appealed to Wasilenkoff mainly because they're high margin, high quality products with a growing market. And best of all, neither rely on the price of pulp.

Dresden Papier produces about 25% of the world's supply of a new type of non-woven wallpaper that makes the product easy to apply, but is also strong and easy to remove.

The product is reviving the wallpaper sector, and annual revenue at the Heidenau mill has more than doubled to roughly \$60 million in four years.

Fortress Paper's Landqart banknote and security paper mill services what is a growing global need for better security for everything from banknotes to passports and ID cards.

It's an extremely specialized arena.

For example, according to a Credit Suisse publication, only three people in the world know the formula used to produce the banknote paper for the Swiss franc. Wasilenkoff said Landqart's expertise is consequently in high demand, and the mill enjoys a large backlog of orders.

"We're increasing capacity, quality, and focusing on new security features. This mill is considered cutting edge, and we want to continue that; we're investing in that."

According to Bank of Canada spokesman Christian Vezeau, the demand for bank notes has continued to grow by 5% a year in Canada, despite a tripling in the use of Interac debit cards in the past decade to 3.3 billion transactions in 2006.

While he could not disclose the types of new security features that the company is spending millions to develop, Wasilenkoff said he hopes to become the paper supplier for Canada's currency and play a role in reducing the counterfeiting risk facing Canadian bills that has weakened confidence in Canadian cash.

"I think it's only right that a Canadian company produce [the paper for] the Canadian currency." •

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