

Interview

Making Money and Wallpaper

An Interview with Chadwick Wasilenkoff, Chairman, Chief Executive Officer, and Director, Fortress Paper Ltd.

EDITORS' NOTE *As Fortress Paper's Chairman, Chief Executive Officer, and Director, Chad Wasilenkoff oversees the company's production of security and other specialty papers. Most recently, Wasilenkoff was the Chief Executive Officer and Director of Titan Uranium Exploration Inc. from July 2004 to June 2006 and an independent private equity investor from October 2002 to January 2004. From 1997 to 2002, Wasilenkoff was an investment advisor and financial planner at Canaccord Capital Corp. He has a Bachelor of Arts degree from The University of British Columbia.*

COMPANY BRIEF *Fortress Paper is a leading international producer of security and other specialty papers and pulp. The company (www.fortresspaper.com) operates three mills: the Landqart Mill in Switzerland, the Dresden Mill in Germany, and the recently acquired Fortress Specialty Cellulose Mill in Thurso Quebec, Canada. Fortress Paper's security paper includes banknote, passport, and visa papers and its specialty papers include non-woven wallpaper base products and graphic and technical papers. Its specialty pulp business currently includes NBHK and the mill is undergoing a conversion to dissolving pulp for the textile industry in Asia. As an extension of its security papers business, the Landqart Mill has been actively developing and marketing innovative paper-based security products.*

What did you see in the market that made you feel Fortress Paper would be successful?

My background is as more of a contrarian investor, so I always start from the bottom up. I was looking at the forestry sector – everything else was taking off, but this was still in a steady decline and had been for 12 to 15 years. So I evaluated pulp companies and commodity paper companies, and found these two niche paper mills that were world class in what they did. They had growth industries in both of their core products, but what they lacked was a strong and focused management team and growth capital. So that's how we built the company.

What is produced at each of the mills?

Our German mill, located just outside Dresden, specializes in a non-woven wallpaper base. Most wallpapers are traditionally made from a regular kraft pulp, and that is what leads to the problem of trying to remove the paper. Because of that, the industry was going through challenging times. It had been in about a 10 to 12 year decline; it has since steadied and been fairly stable and mature. The reason for that stability is because the industry got together and



Chadwick Wasilenkoff

created this new non-woven product where we put synthetic fibers into the paper. With those synthetic fibers, we get the strength characteristics and it becomes dry-strippable. So now, once you're able to pull a corner away, it comes off in one pull. While the overall wallpaper market is stable, this non-woven product is growing within it at about a 15 to 20 percent per annum growth rate, and we currently represent 50 percent of the world production of non-woven wallpaper.

The other mill is our Landqart mill, based in Switzerland, and it specializes in high-security paper. What we're best known for is the banknote side of things. We're the sole maker of the Swiss Franc, which is the industry standard – it is the currency by which all international banks measure themselves. It has more security features than any other currency in the world and one of the lowest counterfeit rates. It has never had a professional counterfeit attempt against it.

We also make the Euro for about 10 different countries, passports for dozens of countries, the entry visa sticker for India and China, and brand protection papers for companies like Rolex.

Our latest acquisition, Fortress Specialty Cellulose was a shut down NBHK Mill in Thurso Quebec, Canada. We put together a plan to purchase the mill and convert it to a higher margin product, dissolving pulp, which is primarily used for producing rayon in Asia. Most of the financing for the \$153 conversion was provided by the Quebec government.

What impact is new technology having on counterfeiting issues?

Probably the biggest change in the global counterfeiting market has been the advancement of color photocopier standards. Now anybody can go onto eBay and buy regular home office equipment and do a half decent job of counterfeiting. A lot of money goes into research and development

and new technologies to try to make it as difficult as possible for these counterfeiters. Unfortunately, some of these products are too successful and they get commercialized. For instance, the hologram that you typically find on a banknote, you can now buy holographic wrapping foil, and with a fairly rudimentary stamp, create your own hologram with that denomination on it. So while it was a spectacular feature when it began, it is slowly losing ground. They are now continuing to work on holograms to try to improve them, to make them a lot more complex and difficult.

What are your key priorities over the coming year to make sure the growth continues and the brand remains strong?

When I bought the company, I had a three-stage long-term plan: stage one was to change and focus on hiring and retaining good management; the second stage was dealing with internal or organic growth, and leveraging off our existing assets; and the third stage was going external, so now it's more of a focus on mergers and acquisitions.

In our industry, especially on the banknote side, cost is probably fifth or sixth on the list for national banks. It's reputation first and foremost. It's an industry that is not going to shift over to low-cost production regions. It's just too important of a product to worry about coming from a low-cost environment. So it's about reputation, quality, new innovative products, high-security measures, and staying ahead of the counterfeiter. It's such an important product that they're willing to pay for a new world-class innovative technology and security feature. We'd like to find small companies that have these great products but can't break into the banknote industry because it is so conservative. A lot of the printers or papermakers have been around for more than 300 years, so nobody wants to take a chance on a little supplier. We can take a small company that has a world-class product, and acquire it or do a joint venture or at least enable the security of that particular product, and we can launch it under our umbrella, giving it the reputation.

Do you see yourself in this business for the long term?

We have a lot to accomplish with Fortress Paper and one of our biggest challenges today is our share price. While our stock is currently undervalued, we are working to ensure that our shares trade closer to the industry averages that will enable us to make creative acquisitions that increase our reach and technological acumen. At some point in the foreseeable future, I am likely to relinquish the CEO title but stay on as Chairman and a happy shareholder. ●