

# 1<sup>ST</sup> HALF FY2021/3

## MANAGEMENT BRIEFING

- MEDIUM-TERM MANAGEMENT PLAN PROGRESS  
AND ACTIONS TO COVID-19-

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November 5, 2020



**NIPPON PAPER INDUSTRIES**

SHAPING THE FUTURE WITH TREES 

- 1 The Sixth Medium-Term Business Plan Progress**
- 2 COVID-19 Impact and Actions**
- 3 Financial Discipline**

# 1. The Sixth Medium-Term Business Plan Progress

## Operating income by Segment

(¥billion)

	FY2018/3 Actual	FY2019/3 Actual	FY2020/3 Actual	FY 2021/3 Forecast	FY 2021/3 6th MTBP
Paper and paperboard	-8.0	-9.2	6.1	3.5	14.0
Daily-life products	13.7	12.7	12.9	9.0	18.0
Energy	4.1	7.9	6.8	7.0	7.5
Wood products and construction related	4.5	4.9	5.9	5.0	4.5
Others	3.3	3.3	3.3	1.3	3.0
Acquisition-related expenses	-	-	-	-5.8	-
<b>Total</b>	<b>17.6</b>	<b>19.6</b>	<b>35.0</b>	<b>20.0</b>	<b>47.0</b>

※ FY2018/3-FY2020/3 results of Australian Paper are included in Daily-life products business.

FY2021/3 Target of 6th MTBP are as published in May 2018.

# 1. The Sixth Medium-Term Business Plan Progress

## Paper and paperboard business

FY2021/3 Operating income

Forecast: ¥3.5 billion  
6<sup>th</sup> MTBP: ¥14.0 billion

- Reorganized production structure and completed the shutdown of the papermaking machines as planned.
- Achieved and maintained price increases for printing paper and boxboard.



### Achieved Target in FY2020/3

FY2021/3

**Significant Decrease in demand due to the expansion of COVID-19**

(YOY)	FY2020/3 Domestic demand *		FY2021/3 Sales Volume Assumptions
• Newsprint	-7%	➔	-13%
• Printing paper	-6%	➔	-19%

**Impact Approx.  
¥-15.0 billion**

# 1. The Sixth Medium-Term Business Plan Progress

## Daily-life products business

FY2021/3 Operating income

Forecast: ¥9.0 billion  
6<sup>th</sup> MTBP: ¥18.0 billion

### Package

- **Strengthened filling-machine sales activity increased carton sales volume in Japan.**
- **The US-China trade friction decreased sales volume in Overseas (NDP).**



**The target of 6<sup>th</sup> MTBP is not expected to be achieved.**

- **Acquired the former Orora's Paperboard and Fibre Based Packaging Business in Australia/New Zealand.**
- **Operated from May 2020 as Opal group that includes both AP and the said business**

**Aim to realize synergies as a comprehensive packaging manufacturer.**



**Currently, it is heavily affected by COVID-19.**

**Full-scale contribution to earnings is expected to come in 2H of FY2022/3.**

- NDP: Nippon Dynawave Packaging
- AP: Australian Paper

# 1. The Sixth Medium-Term Business Plan Progress

## Daily-life products business

FY2021/3 Operating income

Forecast: ¥9.0 billion  
6<sup>th</sup> MTBP: ¥18.0 billion

### Household tissue and Healthcare

- Two papermaking machines in Crecia-Kasuga started operation as planned.
- Realized Household paper products price hike with strong market growth.



The target of 6<sup>th</sup> MTBP is expected to be achieved.

### Chemical

- Dissolving pulp markets circumstances have been severe since the US-China trade friction.
- Implement capital expenditure in functional coating resin products and CMC areas. Current demand for automobile-related applications are weak but is in a gradual recovery trend.
- Functional film sales is steady with growth of organic EL demand



The target of 6<sup>th</sup> MTBP is not expected to be achieved.

# 1. The Sixth Medium-Term Business Plan Progress

## Energy business

FY2021/3 Operating income

Forecast: ¥7.0 billion

6<sup>th</sup> MTBP: ¥7.5 billion

- **Ishinomaki Energy Center operation is steady.**



**The target of 6<sup>th</sup> MTBP is expected to be nearly achieved.**

## Wood products and construction related business

FY2021/3 Operating income

Forecast: ¥5.0 billion

6<sup>th</sup> MTBP: ¥4.5 billion

- **Impacted by New Housing Starts Decrease**
- **Sales of fuel-use woodchip is steady.**



**The target of 6<sup>th</sup> MTBP is expected to be achieved.**

## Other businesses

FY2021/3 Operating income

Forecast: ¥1.3 billion

6<sup>th</sup> MTBP: ¥3.0 billion

- **Logistics and Leisure businesses are affected by COVID-19**



**The target of 6<sup>th</sup> MTBP is not expected to be achieved.**

## Others

Acquisition-related expenses ¥5.8 billion is a one-time item for this FY.

## 2. COVID-19 Impact and Actions

### Impact by COVID-19

(¥billion)

	Operating income	Major Impact (Operating income)	Outlook for recovery
<b>Paper and paperboard</b>	-10.0	<ul style="list-style-type: none"> <li>Significant decrease in domestic paper demand (Newsprint, printing paper, and copy paper)</li> </ul>	×
<b>Daily-life products</b>	-5.5		
<b>Opal (Package)</b>	-3.0	<ul style="list-style-type: none"> <li>Demand for produce and meat applications decrease (A\$-40 million)</li> </ul>	○ From 2H of CY2021 onward
<b>Opal (AP Business)</b>	-2.5	<ul style="list-style-type: none"> <li>Printing paper demand decrease (A\$-35 million)</li> </ul>	△ From 2H of CY2021 onward(A\$20 million)
<b>Energy</b>	0.0		
<b>Wood products and construction related</b>	0.0		
<b>Others</b>	-1.0	<ul style="list-style-type: none"> <li>Distribution volume decrease (Domestic Paper)</li> <li>Leisure demand decrease</li> </ul>	× From 2H of CY2021 onward ○
<b>Total</b>	<b>-16.5</b>		

\* 8 months of Opal Packaging Business results will be included in the consolidated financials of FY2021/3. Therefore, Covid-19 impact amount is also calculated for eight months.



## 2. COVID-19 Impact and Actions

### Restructuring of Domestic Paper Business

- Covid-19 significantly changed the demand environment.
- Demand is unlikely to recover in the future due to further digitization and others.
- Production volume decreased operating rate due to measures production volume



**Restructuring domestic Paper business and improving its profitability are urgently needed.**



### **Review of Production Structure to Strengthen Competitiveness**

- **Announcement on Nov 5**  
Permanently shutdown two papermaking machines at Kushiro Mill  
(Newsprint, publication paper, and kraft paper)
- **Coated Paper**  
Reviewing potential capacity reduction by 200 to 300 thousand tonnes.  
Decision will be made the end of this year.

## 2. COVID-19 Impact and Actions

### Production Structure Review to Strengthen Competitiveness

**Will cease the operation of the No. 6 and 7 paper machine at the end of September 2021**

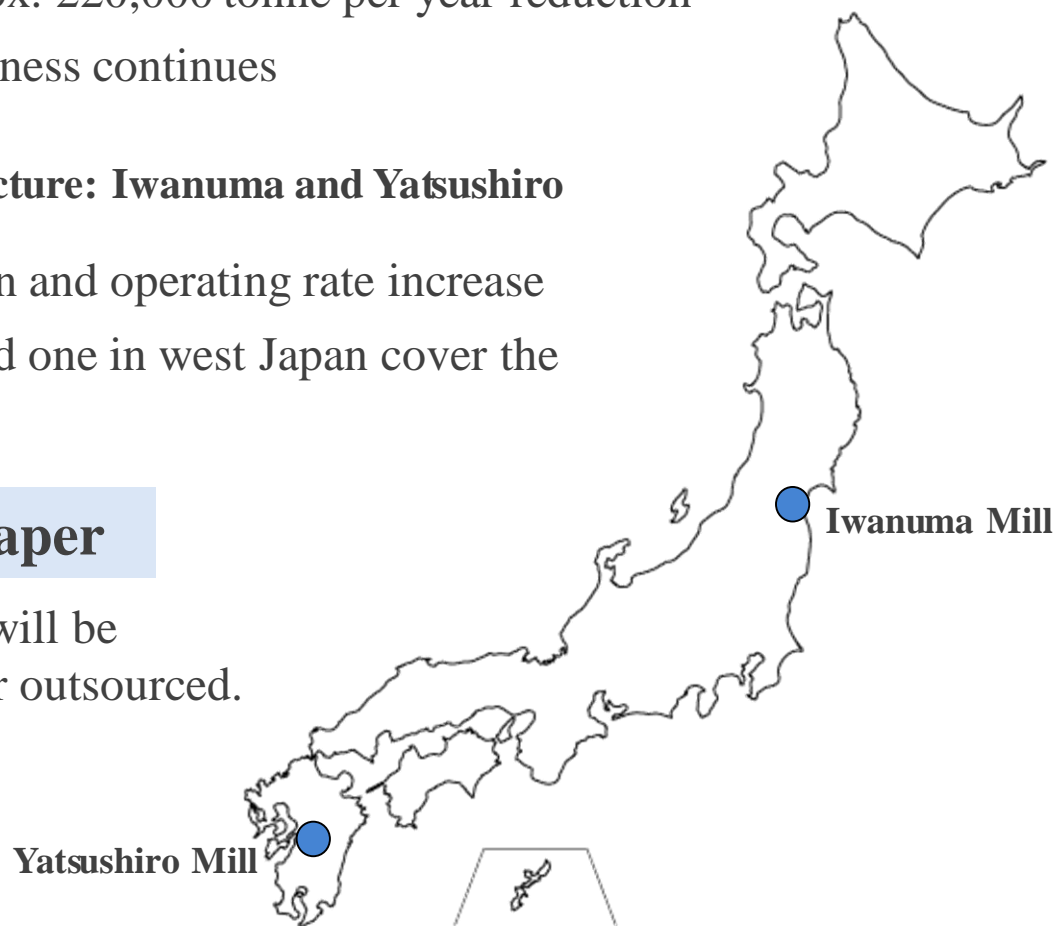
- Production capacity: Approx. 220,000 tonne per year reduction
- Kushiro Mill's Energy business continues

#### **Newsprint** Two Mill Structure: Iwanuma and Yatsushiro

- Realize fixed cost reduction and operating rate increase
- One mill located in east and one in west Japan cover the entire country.

#### **Publication and Kraft paper**

- Production of those paper will be transferred to other mills or outsourced.



## 2. COVID-19 Impact and Actions

### Effects and financial impacts of permanent machine shutdown

**Recording of impairment loss on non-current assets: Approx. ¥5.0 billion**

- Approximately ¥5 billion is recorded in 2Q results as impairment loss on noncurrent assets.

#### **Personnel measures**

- Affected employees (approximately 250 people) are expected to keep hired through filling vacant positions from retirements and transferring within the Group

**Profit improvement by fixed cost reduction: Approx. ¥5.4 billion**

- Labor cost                            ¥2.5 billion
- Depreciation and others    ¥2.9 billion

## 2. COVID-19 Impact and Actions

### COVID-19 situation in Australia/New Zealand

- Australia
- Mar 18 State of Emergency Declaration
  - Restrictions on movement and lock-down in urban areas
- NZ
- Mar 25 State of National Emergency Declaration
  - Suspension of operations at restaurants, cafes, and others.

GDP Growth Rate in CY2020

	1Q	2Q
Australia	-0.3%	-7.0%
NZ	-1.6%	-12.2%

### COVID-19 Impact to Opal

- Sales
- Printing paper: Demand decreased due to lockdown
  - Boxboard: Market price decreased.
  - Corrugated box: Weak demand for produce and meat applications decreased sales volume.

Profit **A\$ -75 million (Packaging Business -40\*, AP business -35)**

- Economy in ANZ is expected to recover in or after 2H CY2021
- Box board demand is expected to recover in line with economic recovery
- Demand for printing paper in Australian continues to decrease



**Early realization of synergy is essential.**

\* Orora/ Packaging Business's Operating income for its FY2019/6 was A\$80 million  
8 months of Opal Packaging Business results will be included in the consolidated financials of FY2021/3.  
Therefore, Covid-19 impact amount is also calculated for eight months.

## 2. COVID-19 Impact and Actions

### Major Initiatives to Realize Synergies

**Aiming to realize A\$50 million improvement through synergies and growth investment**

**(Breakdown of Synergy Effects)**

**Head Office Division     A\$ 20 million**

- Realize various synergies

**Procurement Division     A\$ 17 million**

- Streamline procurement functions and realize centralized procurement

**Logistics Division     A\$ 14 million**

- Review nationwide warehouse structure
- Optimize truck transportation between both entities

**(Timing of synergy achievement)**

<b>FY 2022/3</b>	<b>A\$ 25 million</b>
<b>FY 2023/3</b>	<b>A\$ 20 million</b>
<b>FY 2024/3</b>	<b>A\$ 5 million</b>

## 2. COVID-19 Impact and Actions

### Recovery from COVID-19 damages

(¥billion)

	IMPACT Of Covid-19 (Operating income)	Of which Unrecoverable	Main actions (will be achieved in 2021-2023)
<b>Paper and paperboard</b>	-10.0 Newsprint, printing paper, copy paper	-10.0	<ul style="list-style-type: none"> <li>• Restructuring production (Kushiro) ¥+5.4 billion</li> <li>• Restructuring coated paper's production</li> <li>• Cost reduction by improving the operating rate</li> </ul>
<b>Daily-life products</b>	-5.5	-1.0 Printing paper (AP)	<ul style="list-style-type: none"> <li>• Realization of Opal synergies A\$+50 million</li> <li>• Optimize AP business</li> </ul>
<b>Others</b>	-1.0	-0.5 Logistics business	
<b>Total</b>	<b>-16.5</b>	<b>-11.5</b>	

**Additional actions will be considered to overcome Covid-19 damages.**

## 2. COVID-19 Impact and Actions

### Outline of the next MTBP and Long-Term Vision

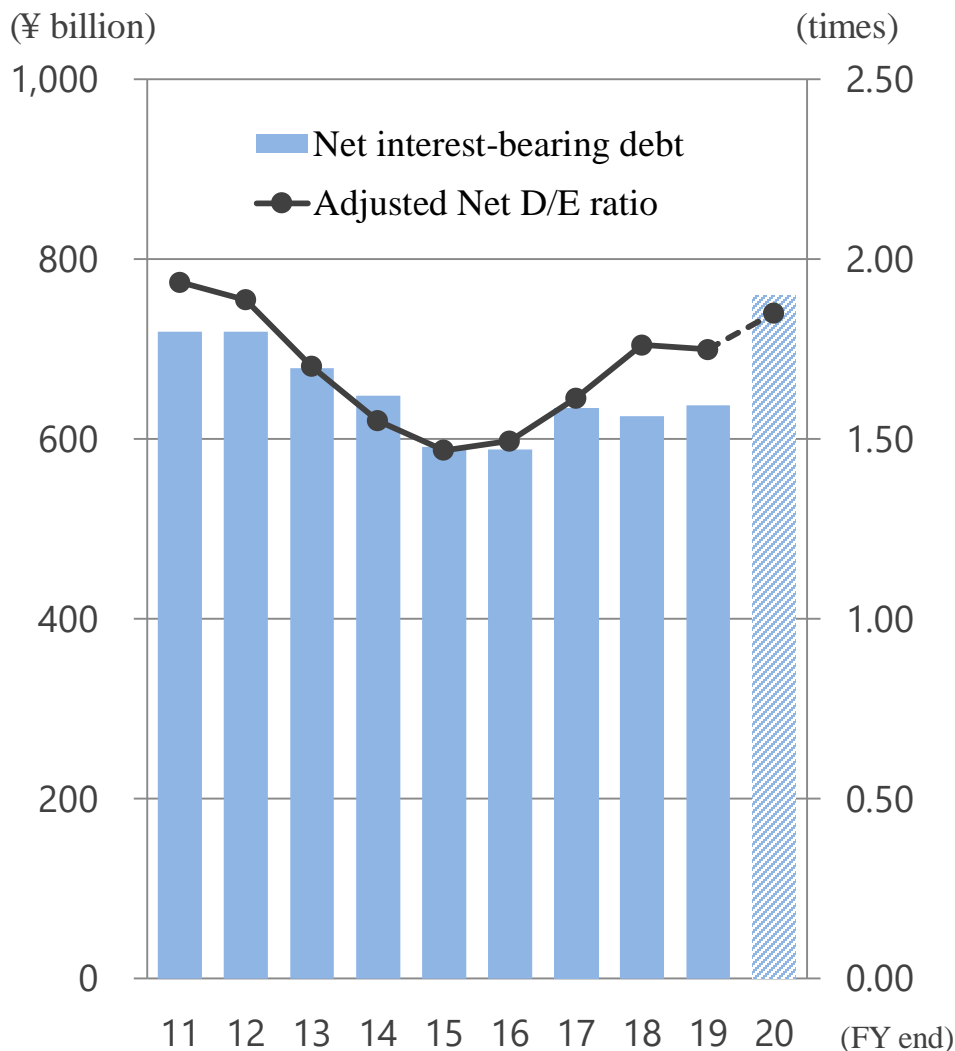
#### **Realize business portfolio transformation**

- **Next MTBP**
  - **Concentrate management resources on Daily-life products business**
- **Long-term vision**
  - **Growth area: Business expansion thorough overseas business development, innovative materials and new businesses**
  - **Paper Business: Optimizing manufacturing and sales structure that meet future demand**

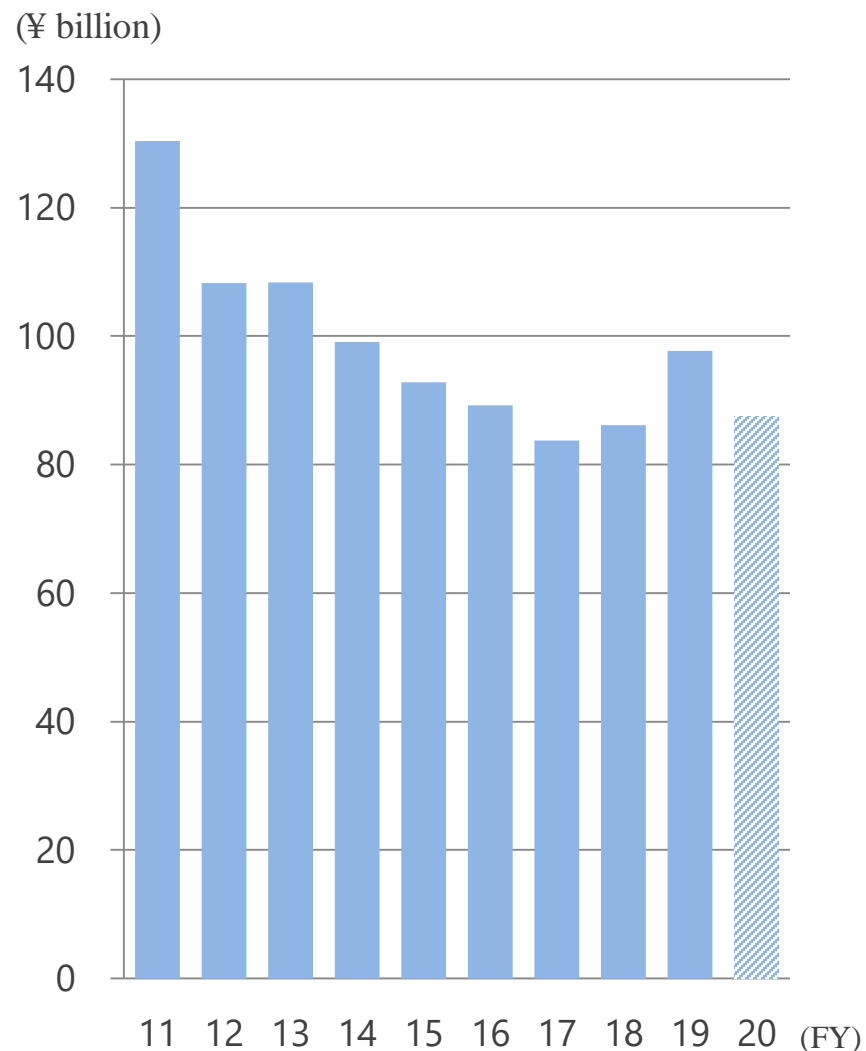
The next MTBP and long-term vision will be announced in May 2021.

# 3. Financial Discipline

## Interests bearing debt, DER



## EBITDA



\* Adjusted Net D/E ratio= (Net interest-bearing debt- Equity-type debt)/(Shareholders' Equity + Equity-type debt)

Equity-type debt : The amount of debt procured by Hybrid loans that has been recognized as equity credit by rating agencies (50% of the procured amount raised)



**The Nippon Paper Group aims to contribute to better living and cultural progress everywhere it does business.**

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