



Nippon Paper Industries Co., Ltd.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2023

August 5, 2022

Event Summary

[Company Name]	Nippon Paper Industries Co., Ltd.	
[Company ID]	3863-QCODE	
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[Event Type]	Earnings Announcement	
[Event Name]	Q1 Financial Results Briefing for the Fiscal Year Ending March 2023	
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[Date]	August 5, 2022	
[Time]	17:30 – 18:17 (Total: 47 minutes, Presentation: 14 minutes, Q&A: 33 minutes)	
[Venue]	Dial-in	
[Number of Speakers]	Tomoyasu Itakura	Executive Officer, General Manager, Financial Division
	Akira Sebe	Executive Officer, General Manager, Corporate Planning Division
	Hiromichi Matoba	General Manager, Accounting and Budgeting Department
	Takashi Ueno	General Manager, Corporate Planning Department

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1st Quarter FY2023/3 Financial Results



Consolidated Statement

(¥billion)

	1Q FY2022/3 Results	1Q FY2023/3 Results	Variance	
			Amount	%
Net sales	250.5	264.8	14.3	5.7%
Operating income	4.8	-2.9	-7.7	-
Ordinary income	3.5	1.2	-2.3	-65.3%
Net income *	1.9	-8.2	-10.1	-

* Profit attributable to owners of parent

- Net sales increased year on year due to the effect of price increase and other factors.
- Operating loss was recorded due to the continued harsh business environment caused by soaring raw material and fuel prices.
- Reversal of a portion of deferred tax assets based on future performance trends and other factors.

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Itakura: I am Itakura from Financial Division. I would like to present an overview of the financial results for Q1 of fiscal year ending March 2023.

Net sales increased 5.7% YoY to JPY264.8 billion, mainly due to the effect of price revisions implemented since the previous fiscal year and higher sales in the daily-life products business. However, the business environment remained difficult due to soaring raw materials and fuels prices, which far exceeded the effect of the revenue increase, resulting in a JPY7.7 billion decrease from the previous fiscal year and an operating loss of JPY2.9 billion.

In non-operating income/loss, there was a foreign exchange valuation gain due to dollar-denominated borrowings by a Brazilian subsidiary. In addition, the Company recorded an extraordinary loss for the disaster loss caused by the Fukushima Prefecture earthquake in February this year. Furthermore, as a result of a review of the recoverability of deferred tax assets in light of future performance trends and other factors, the Company has reversed a portion of its deferred tax assets, amounting to approximately JPY5.0 billion.

As a result, ordinary income was JPY1.2 billion and net loss was JPY8.2 billion.

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Results by Segment

(¥billion)

	Net sales			Operating income		
	1Q FY2022/3 Results	1Q FY2023/3 Results	Variance	1Q FY2022/3 Results	1Q FY2023/3 Results	Variance
Paper and paperboard	131.1	132.0	0.9	0.1	-2.2	-2.3
Daily-life products	91.9	101.0	9.1	1.4	-2.6	-4.0
Energy	6.4	8.2	1.8	0.5	-0.3	-0.8
Wood products and construction related	14.2	16.7	2.5	1.9	1.9	0.0
Others	6.9	6.9	0.0	0.9	0.3	-0.6
Total	250.5	264.8	14.3	4.8	-2.9	-7.7

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Net sales and operating income by segment are shown in the table below.

Net sales increased in all major segments, including the daily-life products business, to JPY264.8 billion. In addition, sales of products other than paper and paperboard accounted for more than 1/2 of total sales, indicating that the business structure transformation being promoted under the medium-term business plan 2025 is taking effect in terms of net sales. However, we posted an operating loss of minus JPY2.9 billion. Details will be explained later in the segment results section.

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1Q FY2023/3 vs. 1Q FY2022/3 Variance Analysis

(¥billion)

Volume, Sales Price	7.2	-
Raw material and fuel prices	-13.7	Wood chips -1.7, Wastepaper -2.0, Pulp -0.2, Oil -0.5, Coal -4.9, LNG -0.9, Chemicals, etc. -3.5 (Price -9.6, FOREX -4.1)
Cost reductions, etc.	2.7	Cost reductions 0.8, Permanent machine shutdown at the Kushiro Mill and the Ishinomaki Mill 2.0, Coal reduction effect 0.7, Labor costs 0.0, Logistics costs -0.8
Others	1.5	Oversea business 0.1, Depreciation 0.5, Retirement benefit expenses 0.2, Inventory value adjustment, etc. 0.7
Paper and paperboard business	-2.3	
Daily-life products business	-4.0	Domestic -1.5 : Household paper and Healthcare -0.8, Package -0.3, Chemical -0.4 Overseas -2.5 : Opal 0.4, NDP -2.9
Other businesses	-1.4	Energy -0.8, Wood products and construction related 0.0, Others -0.6
Operating income	-7.7	
Non-operating income	5.4	Net financial cost 0.2, Equity in earnings of affiliates 1.1, FOREX 4.2, Others -0.1
Ordinary income	-2.3	

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The breakdown of the factors for the increase/decrease is as shown below.

First, let me discuss the factors affecting the paper and paperboard business. We will refrain from disclosing the details, but volume and sales price increased JPY7.2 billion. Domestic sales volume of paper decreased from the previous fiscal year, but the effect of price revisions announced last year and higher selling prices for export products contributed to the increase.

The price of raw material and fuels was negative JPY13.7 billion. All raw fuels, including coal, used paper, and chips, have been severely affected. Cost reductions, et cetera, resulted in a positive JPY2.7 billion. This includes the effects of coal reductions, along with cost improvements due to stabilized operations and fixed-cost reductions due to shutdowns at the Kushiro and Ishinomaki Mills. Logistics costs soared, mainly due to marine transportation costs related to exports.

Other businesses, such as daily-life products business, will be explained later. As a result of the above, operating income decreased by JPY7.7 billion YoY. Non-operating income increased JPY5.4 billion YoY due to the impact of foreign exchange gains and the contribution of equity in earnings of affiliates, while ordinary income decreased JPY2.3 billion YoY.

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Paper and paperboard business

(¥billion)

Net sales			Operating income		
1Q FY2022/3 Results	1Q FY2023/3 Results	Variance	1Q FY2022/3 Results	1Q FY2023/3 Results	Variance
131.1	132.0	0.9	0.1	-2.2	-2.3

• Domestic

- Domestic sales volume of paper decreased year on year due to sluggish demand.
- Domestic sales volume of paperboard remained flat year on year due to sluggish demand for industrial products, although demand for beverage-related products remained steady.
- Net sales increased year on year due to the effect of price increase.
Operating income was in the deficit due to higher prices of raw materials and fuel such as coal, wood chips, and wastepaper.

• Overseas

- Both Jujo Thermal and SNP slight increased profits year on year by implementing price increase for their products, despite the impact of higher raw material and fuel prices and maritime transport cost.

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I will now discuss our performance by segment.

First, let me talk about the paper and paperboard business.

Regarding the domestic business, domestic sales volume of paper was lower than the same period of the previous fiscal year due to overall weak demand.

Domestic sales volume of paperboard remained at the same level as the same period of the previous fiscal year due to weak demand for industrial products, although demand for beverage-related products remained strong. Although sales increased YoY due to the effect of price revisions, operating income was in the red due to higher prices for raw materials and fuels, such as coal, wastepaper, and wood chips.

In the overseas business, both Jujo Thermal and SNP were affected by rising raw materials and fuels prices and marine transportation costs, but both businesses achieved a slight increase in profits by promoting price adjustments for their products. As a result of the above, the paper and paperboard business posted higher sales and lower profits compared to the previous fiscal year.

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Daily-life products business

(¥billion)

	Net sales			Operating income		
	1Q FY2022/3 Results	1Q FY2023/3 Results	Variance	1Q FY2022/3 Results	1Q FY2023/3 Results	Variance
Domestic	44.5	46.1	1.6	2.6	1.1	-1.5
Overseas	47.4	54.9	7.5	-1.2	-3.7	-2.5
Daily-life products business total	91.9	101.0	9.1	1.4	-2.6	-4.0

• Domestic

- The impact of higher prices for raw materials and fuels such as pulp, coal, and liquid packaging boards was ¥-3.9 billion.
- Net sales increased year on year due to the impact of the effect of price increase in the previous fiscal year and an increase in sales volume of household products and other products. But operating income decreased year on year.

• Overseas

- Opal has realized synergy effect as expected, and the deficit decreased year on year. But Opal's operating income fell short of the plan due to higher raw material and fuel prices and higher logistics costs caused by disruptions in marine transportation.
- Nippon Dynawave Packaging (NDP) decreased profits year on year due to the suspension of operations, and lower sales volume resulting from disruptions in marine transportation.

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Next, I will explain the performance of the daily-life products business.

In the domestic business, the liquid packaging boards, household paper, healthcare, and chemical all experienced a sharp rise in raw materials and fuels prices, which had a negative impact of JPY3.9 billion compared to the same period last year. Despite positive factors, such as the effect of price revisions undertaken in the previous fiscal year and expanded sales of household paper and other products, the domestic business posted higher sales and lower profits compared to the previous fiscal year.

Among overseas businesses, Opal's loss narrowed from the same period of the previous fiscal year due to synergy effects as expected. However, we were not able to meet our plan due to soaring raw materials and fuels prices and rising logistics costs caused by disruptions in marine transportation. NDP in North America posted an operating income of minus JPY2.9 billion YoY due to an increase in fixed costs resulting from a large-scale suspension of operations, which was not implemented in the previous fiscal year, as well as a decrease in sales volume caused by disruptions in marine transportation.

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1st Quarter FY2023/3 Financial Results



Energy business

(¥billion)

1Q FY2022/3 Results	Net sales		1Q FY2022/3 Results	Operating income	
	1Q FY2023/3 Results	Variance		1Q FY2023/3 Results	Variance
6.4	8.2	1.8	0.5	-0.3	-0.8

- Net sales increased and operating income decreased due to the impact of higher coal prices.

Wood products and construction related business

(¥billion)

1Q FY2022/3 Results	Net sales		1Q FY2022/3 Results	Operating income	
	1Q FY2023/3 Results	Variance		1Q FY2023/3 Results	Variance
14.2	16.7	2.5	1.9	1.9	0.0

- Domestic raw wood sales volume remained firm amid tight global demand for lumber. Operating income was almost the same level as from the previous year.

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In the energy business, net sales increased and operating income decreased due to a time lag in the transfer of coal prices to sales prices amid the continuing sharp rise in coal prices.

In the wood products and construction related business, operating income was almost flat YoY due to strong domestic timber sales volume amid tight global demand for timber.

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Consolidated Statement

	FY2022/3 Results	FY2023/3 Forecast	Variance	
			Amount	%
Net sales	1,045.1	1,100.0	54.9	5.3%
Operating income	12.1	-20.0	-32.1	-
Ordinary income	14.5	-20.0	-34.5	-
Net income *	2.0	-25.0	-27.0	-

(¥billion)

* Profit attributable to owners of parent

- We expect raw material and fuel prices, including coal, and logistics costs to remain high through the end of the current fiscal year. We will promote more in-depth efforts to return to profitability in the next fiscal year and beyond.
- We have determined that our first priority is to secure liquidity on hand and improve the soundness of our financial base, and will not pay a dividend for current fiscal year.

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Next, I would like to discuss the forecast for fiscal year ending March 2023.

Prices of coal and other raw materials and fuels and logistics expenses have remained high, and in addition, the weak yen has worsened the situation. This situation is expected to continue through the end of the current fiscal year.

In our earnings announcement in May of this year, we had not yet determined our earnings forecast, but in light of our Q1 performance and the current severe cost environment, we now forecast net sales of JPY1,100.0 billion, operating loss of JPY20.0 billion, ordinary loss of JPY20.0 billion, and net loss of JPY25.0 billion for the current fiscal year.

We were also undecided on the dividend forecast for this fiscal year, but in light of this earnings forecast, we have determined that our first priority is to ensure liquidity on hand and a sound financial base, and with sincere regret, we have decided to pay no interim and year-end dividends for the current fiscal year.

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Results by Segment

(¥billion)

	Net sales			Operating income		
	FY2022/3 Results	FY2023/3 Forecast	Variance	FY2022/3 Results	FY2023/3 Forecast	Variance
Paper and paperboard	532.1	540.0	7.9	-5.6	-35.0	-29.4
Daily-life products	386.5	420.0	33.5	4.8	6.0	1.2
Energy	31.8	40.0	8.2	1.6	0.0	-1.6
Wood products and construction related	64.5	70.0	5.5	7.6	7.0	-0.6
Others	30.2	30.0	-0.2	3.7	2.0	-1.7
Total	1,045.1	1,100.0	54.9	12.1	-20.0	-32.1

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Net sales and operating income by segment are as shown.

Sales in major segments are expected to increase compared to the previous fiscal year, achieving the sales target of JPY1.1 trillion set in the medium-term business plan 2025.

Operating loss is expected to increase significantly in the paper and paperboard business.

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Major assumptions

■ **Annual decline in domestic sales volume (YoY)**

	1st Half	2nd Half	Full year
Newsprint	-4%	-9%	-7%
Printing	-12%	-10%	-11%
Business communication	-6%	-6%	-6%
Containerboard	0%	0%	0%

■ **Major raw material prices and FOREX**

	Full year
FOREX (USD)	JPY 130/USD
FOREX sensitivity	+800 million yen/year due to 1 yen appreciation against USD
Coal	USD 380/t (Australian coal benchmark price)
Crude oil	USD 110/BL (Dubai)
Wastepaper	Considering current price trends

The main assumptions used in the forecast are as shown below.

Domestic sales volume is based on current conditions. Newsprint, printing paper, and business communication paper are expected to decrease from the previous fiscal year, while containerboard is expected to remain almost flat YoY. We expect coal and crude oil to remain high in the current fiscal year. As for wastepaper, current prices have been gradually increasing, and we expect this trend to continue in the current fiscal year.

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FY2023/3 Forecast vs. FY2022/3 Variance Analysis

(¥billion)

Volume, Sales Price	41.5	-
Raw material and fuel prices	-93.3	Wood chips -13.2, Wastepaper -13.3, Pulp -0.6, Oil -1.0, Coal -43.3, LNG -4.6, Chemicals, etc. -17.3 (Price -77.3, FOREX -16.0)
Cost reductions, etc.	12.8	Cost reductions 5.2, Permanent machine shutdown at the Kushiro Mill and the Ishinomaki Mill 4.1, Coal reduction effect 5.6, Labor costs 0.2, Logistics costs -2.3
Others	9.6	Oversea business 0.7, Depreciation 1.7, Retirement benefit expenses 0.8, Inventory value adjustment , etc. 6.4
Paper and paperboard business	-29.4	
Daily-life products business	1.2	Domestic -1.9 : Household paper and Healthcare -0.9, Package -0.2, Chemical -0.8 Overseas 3.1 : Opal 4.0, NDP -0.9
Other businesses	-3.9	Energy -1.6, Wood products and construction related -0.6, Others -1.7
Operating income	-32.1	
Non-operating income	-2.4	Net financial cost 0.2, Equity in earnings of affiliates -1.1, FOREX 0.1, Others -1.6
Ordinary income	-34.5	

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The breakdown of the factors for the increase/decrease is as shown below.

First, let me discuss the factors affecting the paper and paperboard business. We will refrain from disclosing the breakdown, but we expect volume and sales price to increase by JPY41.5 billion. The above figures incorporate the effects of price revisions for printing and business communication papers, containerboard, and other products announced since June.

The price of raw materials and fuels is expected to be negative JPY93.3 billion. As you can see, there is a huge impact on coal, wastepaper, wood chips, and more. Cost reductions, et cetera, are factored in a positive JPY12.8 billion. This includes the effect of fixed-cost reductions resulting from the suspension of the Kushiro and Ishinomaki Mills, coal reductions, and cost improvements due to stabilized operations. However, logistics costs are expected to be affected by higher ocean transportation costs related to exports.

In the daily-life products business, we expect an increase of JPY1.2 billion versus the previous fiscal year. We expect a decrease in profits in the domestic business, partly due to the impact of higher raw materials and fuels prices, but we have factored in the improved earnings of Opal in the overseas business.

The energy business and the wood products and construction related business are each expected to see a decrease in profits.

That is all I have to say about our earnings forecast. In response to this very difficult situation, as I mentioned earlier, we have already started working on coal reduction usage and further price revisions for various products, including printing paper.

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With regard to the priority issues for this fiscal year, which were explained at the financial results meeting in May, namely accelerating the coal usage reduction, restructuring paper business, and improving Opal's profitability in order to achieve the goals of the medium-term business plan 2025, we will continue to strengthen our efforts and hope to present concrete measures at least at the time of the announcement of Q2 results.

This concludes my explanation of Q1 financial results summary. Thank you very much.

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