

Event Summary

[Company Name]	Nippon Paper Industries Co., Ltd.	
[Company ID]	3863-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q1 Financial Results Briefing for the Fiscal Year Ending March 2024	
[Fiscal Period]	FY2023 Q1	
[Date]	August 7, 2023	
[Time]	16:30 – 17:07 (Total: 37 minutes, Presentation: 10 minutes, Q&A: 27 minutes)	
[Venue]	Dial-in	
[Number of Speakers]	Tomoyasu Itakura	Director, Executive Officer, General Manager, Financial Division
	Akira Sebe	Executive Officer, General Manager, Corporate Planning Division
	Hikomichi Matoba	General Manager, Accounting & Budgeting Department
	Takanori Sano	General Manager, Corporate Planning Department



Consolidated Statement

(¥billion)

	1Q FY2023/3 Results	1Q FY2024/3 Results	Variance	
			Amount	%
Net sales	264.8	287.4	22.6	8.6%
Operating income	-2.9	0.8	3.7	—
Ordinary income	1.2	0.4	-0.8	-70.5%
Net income *	-8.2	-5.3	2.9	—

* Profit attributable to owners of parent

- Net sales increased year-on-year because of price revisions and other factors.
- Operating income returned to profitability due to the contribution of cost reductions and price revision effects for products.
- Extraordinary gains were recorded due to the gain on sales of investment securities i.e., the sale of cross-shareholdings and others. Extraordinary losses were recorded due to the loss on withdrawal from graphic paper business of Opal.

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Itakura: I am Itakura from the Financial Division. Thank you for your cooperation. I would like to present an overview of the financial results for Q1 FY2023.

Net sales increased 8.6% from the previous year to JPY287.4 billion, mainly due to the effect of various price adjustments. Profitability increased by JPY3.7 billion versus the same period last year due to the contribution of cost reductions and price revisions, and operating income returned to the black at JPY0.8 billion.

In non-operating income/loss, foreign exchange valuation gains from US dollar-denominated borrowings by a Brazilian subsidiary decreased versus the same period last year. In extraordinary income/loss, a JPY2.1 billion gain on the sale of investment securities resulting from the sale of strategic equity holdings and other securities was recorded as extraordinary income, while a JPY4.9 billion loss on withdrawal from Opal's graphic paper business was recorded as an extraordinary loss. As a result, ordinary income was JPY0.4 billion and net loss was JPY5.3 billion.

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Results by Segment

(¥billion)

	Net sales			Operating income		
	1Q FY2023/3 Results	1Q FY2024/3 Results	Variance	1Q FY2023/3 Results	1Q FY2024/3 Results	Variance
Paper and Paperboard	132.0	143.3	11.3	-2.2	0.2	2.4
Daily-Life Products	101.0	106.8	5.8	-2.6	-2.3	0.3
Energy	8.2	13.7	5.5	-0.3	0.5	0.8
Wood Products and Construction Related	16.7	16.7	0.0	1.9	2.3	0.4
Others	6.9	6.9	0.0	0.3	0.1	-0.2
Total	264.8	287.4	22.6	-2.9	0.8	3.7

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

Net sales were JPY287.4 billion, with increases in the paper and paperboard, daily-life products, and energy businesses. Operating income returned to the black, with an increase in income excluding other businesses. Details will be explained later in the segment results section.

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Variance Analysis

(¥billion)

		Paper and Paperboard Business		Daily-Life Products Business	
Volume, Sales Price	22.7	18.5	—	4.2	—
Raw material and fuel prices	-19.8	-16.1	Wood chips -3.5, Wastepaper -1.2, Pulp -0.2, Oil -0.2, Coal -5.3, LNG -0.3, Chemicals, etc. -5.4 (Price -12.9, FOREX -3.2)	-3.7	Pulp -1.1, Wood chips -0.3, LNG -0.1, Chemicals, etc. -2.2
Cost reductions, etc.	4.1	3.9	Cost reductions 2.2, Permanent machines' shutdown at the Akita Mill and the Ishinomaki Mill 0.4, Labor costs 0.7, Logistics costs 0.6	0.2	—
Others	-4.3	-3.9	Overseas business -1.2, Depreciation 0.6, Retirement benefit expenses 0.3, Inventory value adjustment, etc. -3.6	-0.4	Overseas business 0.0, Inventory value adjustment, etc. -0.4
Total	2.7	2.4	Domestic 3.6, Overseas -1.2	0.3	Domestic 0.3, Overseas 0.0
Other businesses	1.0	Energy 0.8, Wood Products and Construction Related 0.4, Others -0.2			
Operating income	3.7				
Non-operating income	-4.5	Net financial cost -0.5, Equity in earnings of affiliates -1.0, FOREX -2.0, Others -1.0			
Ordinary income	-0.8				

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

In Q1 FY2023, while prices of raw materials and fuels settled down, the price remained high and the impact of year-end inventories continued, resulting in a total cost increase of approximately JPY20 billion in the paper and paperboard and daily-life products businesses due to the raw material and fuel price differentials.

The paper and paperboard business segment has seen an increase of JPY2.4 billion over the previous year. We will refrain from disclosing the breakdown, but volume and sales price were plus JPY18.5 billion. Despite the decrease in sales volume, the effect of price revisions for newsprint, printing and business communication, and containerboard contributed to sales.

The price of raw materials and fuels, mainly coal and chips, was minus JPY16.1 billion. Cost reductions and other measures had a positive effect of JPY3.9 billion. This includes the effect of fixed cost reductions through machine shutdowns at the Akita and Ishinomaki Mill, as well as cost improvements such as energy conservation and fuel conversion.

The daily-life products business posted an increase of JPY0.3 billion versus the previous year. In the packaging, household paper and healthcare, and chemicals businesses, price revisions contributed to the results, despite the significant impact of surging raw material prices.

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Paper and Paperboard Business

(¥billion)

1Q FY2023/3 Results	Net sales		1Q FY2023/3 Results	Operating income	
	1Q FY2024/3 Results	Variance		1Q FY2024/3 Results	Variance
132.0	143.3	11.3	-2.2	0.2	2.4

- Domestic
 - Domestic sales volume of paper and paperboard products decreased year-on-year due to sluggish demand.
 - Despite continued cost increases due to higher prices for raw materials and fuels such as coal and wood chips, operating income returned to profitability by the effects of cost reductions and the contribution of product price revisions.
- Overseas
 - Operating loss was recorded at Jujo Thermal (JTOy) due to sluggish demand for thermal paper in Europe and higher prices for raw materials and fuels.

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We will now discuss our performance by segment. First, let me discuss the paper and paperboard business.

Regarding the domestic business, demand for both paper and paperboard remained sluggish, and domestic sales volume was lower than the same period of the previous year. While costs continued to rise due to higher raw material and fuel prices, such as coal and wastepaper paper, operating income returned to the black thanks to the effects of cost reductions, including cost improvement and fixed cost reductions, as well as product price adjustments.

In the overseas business, Jujo Thermal posted an operating loss due to weak demand for thermal paper in Europe and higher raw material and fuel prices. As a result, the paper and paperboard business posted higher revenues and profits compared to the previous year.

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Daily-Life Products Business

(¥billion)

	Net Sales			Operating Income		
	1Q FY2023/3 Results	1Q FY2024/3 Results	Variance	1Q FY2023/3 Results	1Q FY2024/3 Results	Variance
Domestic	46.1	50.3	4.2	1.1	1.4	0.3
Overseas	54.9	56.5	1.6	-3.7	-3.7	0.0
Total	101.0	106.8	5.8	-2.6	-2.3	0.3

Package 0.7, Chemical -0.9,
Household paper and Healthcare 0.5

Opal -2.5, NDP 2.5, TSP 0.0

- Domestic
 - Sales volumes of toilet paper rolls and healthcare products increased.
 - Sales volumes of functional films, functional coating resins, and liquid-packaging cartons decreased.
 - Despite the impact of soaring raw materials and fuels prices, the effect of product price revisions was realized. As a result, net sales and operating income increased.
- Overseas
 - Opal recorded lower earnings year-on-year due to decrease in sales volume by withdrawal from graphic paper business.
 - Nippon Dynawave Packaging (NDP) increased its earnings year-on-year due to a maintenance outage and others in 1Q of FY2023/3. (In FY2024/3, maintenance outage and others in 2Q)

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Next, we will discuss the performance of the daily-life products business.

In the domestic business, sales volumes of toilet paper rolls and healthcare products increased, but sales volumes of functional films, functional coating resins, and liquid-packaging cartons decreased. While socioeconomic activities were normalizing, there were differences in demand trends due to the impact of high prices and other factors. Overall, despite the impact of higher raw material and fuel prices, product price revisions contributed to higher sales and earnings.

Among overseas businesses, Opal's operating loss increased due to a YoY decline in profit, mainly reflecting a decrease in sales volume following the withdrawal from the graphic paper business. In North America, NDP had a maintenance outage in Q1 of last fiscal year, resulting in an increase in fixed costs. The maintenance outage for the current fiscal year was conducted in the second quarter.

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Energy business

(¥billion)

1Q FY2023/3 Results	Net sales		1Q FY2023/3 Results	Operating income	
	1Q FY2024/3 Results	Variance		1Q FY2024/3 Results	Variance
8.2	13.7	5.5	-0.3	0.5	0.8

• Both net sales and operating income increased due to Yufutsu Energy Center starting commercial operations and higher electricity prices and other factors.

Wood Products and Construction Related Business

(¥billion)

1Q FY2023/3 Results	Net sales		1Q FY2023/3 Results	Operating income	
	1Q FY2024/3 Results	Variance		1Q FY2024/3 Results	Variance
16.7	16.7	0.0	1.9	2.3	0.4

• Although the sales volume of logs and building materials declined year-on-year due to a decrease in the number of new housing starts, the volume of fuel wood chips handled increased.

As a result, net sales and operating income increased.

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In the energy business, the Yufutsu Energy Center began commercial operation in February 2023 and is running smoothly. Operating income returned to the black on higher revenues and profits, mainly due to higher electricity prices resulting from surging raw materials and fuel prices.

In the wood products and construction related business, both sales and income increased due to an increase in the volume of fuel wood chips handled, although the number of new housings starts declined and the sales volume of logs and building materials products was lower than the same period of the previous year.

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Consolidated Statement

(¥billion)

	FY2023/3 Results	FY2024/3 Forecast	Variance	
			Amount	%
Net sales	1,152.6	1,230.0	77.4	6.7%
Operating income	-26.9	24.0	50.9	—
Ordinary income	-24.5	18.0	42.5	—
Net income *	-50.4	15.0	65.4	—

* Profit attributable to owners of parent

- The forecast for FY2024/3 has not changed since the release of May 15.

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There is no change to the full-year forecast for FY2023 from that announced on May 15.

Operating income will be positive on a quarterly basis for the first time since Q4 FY2021. We believe that this is the result of our efforts to reduce costs and revise prices, which we have been promoting since the previous fiscal year, as raw material and fuel prices have begun to stabilize.

Although there are uncertainties in the future, such as raw material and fuel prices and demand trends, we will continue to firmly promote cost reductions and maintain product prices.

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

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