



Nippon Paper Industries Co., Ltd.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2022

February 7, 2022

Event Summary

[Company Name]	Nippon Paper Industries Co., Ltd.	
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[Time]	17:00 – 17:43 (Total: 43 minutes, Presentation: 10 minutes, Q&A: 33 minutes)	
[Venue]	Dial-in	
[Number of Speakers]	3	
	Tomoyasu Itakura	Executive Officer, General Manager, Financial Division
	Akira Sebe	Executive Officer, General Manager, Corporate Planning Division
	Hikomichi Matoba	General Manager, Accounting & Budgeting Department

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3rd Quarter FY2022/3 Financial Results



Consolidated Statement

(¥billion)

	Total 1Q-3Q FY2021/3 Results	Total 1Q-3Q FY2022/3 Results	Variance	
			Amount	%
Net sales	738.9	774.0	35.1	4.8%
Operating income	10.7	10.4	-0.3	-2.6%
Ordinary income	3.0	11.3	8.3	279.3%
Net income *	2.3	2.4	0.1	2.2%

* Profit attributable to owners of parent

- Despite the impact of the adoption of revenue recognition accounting standards from this fiscal year, net sales increased year-on-year due to a rebound to the significant decline in demand in the previous fiscal year due to the impact of Covid-19 and the acquisition of the paperboard packaging business in Australia and New Zealand at the end of April 2020.
- Operating income decreased year-on-year due to the severe business environment caused by higher raw material and fuel.

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Itakura: I am Itakura from the Financial Division. Thank you. I would like to explain the summary of the financial results for Q3 of FY2022/3.

Please see page two. This is a summary of the financial results for Q3 of FY2022/3. Net sales increased 4.8% YoY to JPY774 billion, and operating income decreased 2.6% YoY to JPY10.4 billion.

Net sales increased by JPY35.1 billion, mainly due to the reaction to the large drop in demand in the previous year caused by COVID-19 and the acquisition of the paperboard packaging business in Australia and New Zealand at the end of April 2020. Effective from this fiscal year, the Company has adopted the revenue recognition accounting standard, and as a result, net sales decreased by JPY51.7 billion.

Operating income decreased by JPY0.3 billion YoY due to the severe business environment caused by the sharp rise in raw material and fuel prices since Q2, although JPY5.9 billion was recorded in the previous year as expenses related to the acquisition of the paperboard packaging business in Australia and New Zealand.

In terms of non-operating income and expenses, the foreign exchange valuation loss due to USD-denominated borrowings at our Brazilian subsidiary in the same period of the previous fiscal year narrowed in the current fiscal year, and ordinary income increased by JPY8.3 billion. In addition, the Company posted a gain on sales of investment securities as an extraordinary income, a loss on disaster due to the earthquake off the coast of Fukushima Prefecture, an impairment loss due to the N6 machine shutdown in Ishinomaki Mill, and a loss on business withdrawal from the Kushiro Mill as extraordinary losses. As a result of the above, ordinary income was JPY11.3 billion and net income was JPY2.4 billion.

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Results by Segment

(¥billion)

	Net sales			Operating income		
	Total 1Q-3Q FY2021/3 Results	Total 1Q-3Q FY2022/3 Results	Variance	Total 1Q-3Q FY2021/3 Results	Total 1Q-3Q FY2022/3 Results	Variance
Paper and paperboard	421.4	396.0	-25.4	-0.2	-2.2	-2.0
Daily-life products	232.2	288.0	55.8	6.8	3.2	-3.6
Energy	24.1	22.7	-1.4	5.2	1.3	-3.9
Wood products and construction related	41.6	45.5	3.9	3.8	5.6	1.8
Others	19.6	21.8	2.2	1.0	2.5	1.5
Acquisition-related expenses	-	-	-	-5.9	-	5.9
Total	738.9	774.0	35.1	10.7	10.4	-0.3

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Net sales and operating income by segment are shown here. Net sales increased by JPY35.1 billion YoY to JPY774 billion.

Although the paper and paperboard business saw a decrease in revenue due to the impact of the revenue recognition accounting standard, the business actually saw an increase in revenue.

In the daily-life products business, revenue increased mainly due to the acquisition of the paperboard packaging business in Australia and New Zealand at the end of April 2020. Operating income was JPY10.4 billion, down JPY0.3 billion YoY. The details will be explained later in the segmental results section.

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1-3Q FY2022/3 vs. 1-3Q FY2021/3 Variance Analysis

(¥billion)

Volume, Sales Price	4.5	—
Raw material and fuel prices	-12.4	Wood chips -0.9, Wastepaper -0.9, Pulp -1.2, Oil -1.9, Coal -4.2, Others -3.3 (Price -10.0, FOREX -2.4)
Cost reductions, etc.	1.8	Cost reductions 2.3, Repair costs -0.9, Permanent machine shutdown at Kushiro Mill 2.2, Labor costs 0.0, Logistics cost -1.8
Others	4.1	Overseas business -0.5, Depreciation 1.3, Retirement benefit expenses -1.0, Inventory value adjustment, etc. 4.3
Paper and paperboard business	-2.0	
Daily-life products business	-3.6	Domestic -4.4 : Household paper and Healthcare -3.5, Others -0.9 Overseas 0.8 : Opal -1.5, NDP 2.2, Others 0.1
Other businesses	5.3	Energy -3.9, Wood products and construction related 1.8, Others 1.5, Acquisition-related expenses 5.9
Operating income	-0.3	
Non-operating income	8.6	Net financial cost -0.2, Equity in earnings of affiliates 2.8, FOREX 5.0, Others 1.0
Ordinary income	8.3	

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Now, please look at page four. The following is a breakdown of factors contributing to the increase or decrease.

First of all, the paper and paperboard business saw an increase of JPY4.5 billion in volume and sales price, although I will refrain from giving a breakdown. Domestic sales volumes of paper and paperboard increased 0.4% and 3.5%, respectively, on a YoY basis.

The price of raw materials and fuel was negative JPY12.4 billion. The main influences are coal, oil, and chemicals. Cost reductions, et cetera were positive JPY1.8 billion. This includes cost reductions and the effect of fixed cost reductions associated with the shutdown of the Kushiro Mill.

In addition, logistics cost increased by JPY1.8 billion YoY, due to factors such as soaring ocean transportation costs related to exports. Other projects, such as daily-life products business, will be explained later.

As a result of the above, operating income decreased by JPY0.3 billion YoY. Non-operating increased by JPY8.6 billion YoY due to the impact of foreign exchange gains and equity in earnings of affiliates. Ordinary income increased by JPY8.3 billion YoY.

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Paper and paperboard business

(¥billion)

Total 1Q-3Q FY2021/3 Results	Net sales		Total 1Q-3Q FY2021/3 Results	Operating income	
	Total 1Q-3Q FY2022/3 Results	Variance		Total 1Q-3Q FY2022/3 Results	Variance
421.4	396.0	-25.4	-0.2	-2.2	-2.0

• Domestic

- Domestic sales volume of printing paper increased by 3.6% year-on-year due to a rebound to the decline in demand in the same period of the previous fiscal year.
- Domestic sales volume of paperboard increased by 3.5% year-on-year due to steady demand for beverage-related products, processed foods and mail-order products.
- Profit decreased due to higher prices of raw materials and fuel, such as coal, oil, and wood chips.

• Overseas

- Although sales volume of Jujo Thermal and SNP increased due to a rebound to the significant decline in demand in the same period of the previous year, operating income decreased due to higher pulp prices and other factors.

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I will now explain the results by segment. First, let's talk about the paper and paperboard business.

As for the domestic business, domestic sales volume of printing paper increased YoY due to a rebound to the large drop in demand in the same period of the previous fiscal year. Domestic sales volume of paperboards increased YoY, mainly due to steady demand for beverage-related products, processed foods and mail-order products. However, profits decreased for both paper and paperboard due to soaring prices of raw materials and fuel such as coal, oil, and wood chips.

In the overseas business, sales volume of both Jujo Thermal and SNP increased YoY, but operating income decreased due to higher prices in pulp prices and other factors.

As a result of the above, the paper and paperboard business reported a YoY decline in both sales and profit.

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3rd Quarter FY2022/3 Financial Results



Daily-life products business

(¥billion)

	Net sales			Operating income		
	Total 1Q-3Q FY2021/3 Results	Total 1Q-3Q FY2022/3 Results	Variance	Total 1Q-3Q FY2021/3 Results	Total 1Q-3Q FY2022/3 Results	Variance
Domestic	129.9	137.8	7.9	10.0	5.6	-4.4
Overseas	102.3	150.2	47.9	-3.2	-2.4	0.8
Daily-life products business total	232.2	288.0	55.8	6.8	3.2	-3.6

● Domestic

- In domestic Paper-pak business, sales volume was slightly lower over the last year, mainly due to the impact of the state of emergency declaration for the Covid-19, despite a positive impact due to the installation of filling machines. Profit also decreased year-on-year due to the increase in the price of liquid packaging board.
- In Household paper and Healthcare business, net sales increased year-on-year due to a rebound to the decline in demand in the same period of the previous year. Operating income decreased due to higher raw material and fuel prices.

● Overseas

- Opal's net sales increased but operating income decreased. In this 1H, the business faced a challenging operating environment due to the impact of Covid-19. But in the 3Q, its earnings improved due to a recovery in corrugated box sales volume, higher selling prices for export products, and the emergence of synergy-effects.
- Both net sales and operating income of Nippon Dynawave Packaging (NDP) increased due to higher pulp sales volume because dry pulp machine is running well.

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

Despite an increase in the carton volume of domestic Paper-pak business due to the effect of the installation of filling machines, the overall sales volume was slightly lower YoY due to the declaration of the state of emergency for COVID-19. In addition, profit decreased YoY due to the increase in the price of liquid packaging board.

Sales of household papers and health care increased due to a rebound to the decline in demand in the same period of the previous year, steady sales of long-lasting rolls and towels, and the integration of sales functions of hand towels with Try-Fu Co., Ltd. However, sales increased but profit decreased due to the rise in raw material and fuel prices, including pulp prices.

Of the overseas businesses, Opal reported higher sales and lower profits. In H1, we faced a difficult business environment due to COVID-19, but in Q3, earnings improved due to a recovery in corrugated box sales volume, higher selling prices for export products, and the emergence of synergy effects.

NDP in North America achieved higher sales and profits due to steady operation of dry pulp machines, higher sales volume of pulp, as well as a decrease in fixed costs as a result of maintenance shutdown in the previous year but not in the current year.

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Energy business

(¥billion)

Total 1Q-3Q FY2021/3 Results	Net sales		Total 1Q-3Q FY2021/3 Results	Operating income	
	Total 1Q-3Q FY2022/3 Results	Variance		Total 1Q-3Q FY2022/3 Results	Variance
24.1	22.7	-1.4	5.2	1.3	-3.9

- Both net sales and operating income decreased due to the completion of rapidly changing mitigation measures in the Feed-in tariff (FIT) fixed-price system to promote renewable energy.

Wood products and construction related business

(¥billion)

Total 1Q-3Q FY2021/3 Results	Net sales		Total 1Q-3Q FY2021/3 Results	Operating income	
	Total 1Q-3Q FY2022/3 Results	Variance		Total 1Q-3Q FY2022/3 Results	Variance
41.6	45.5	3.9	3.8	5.6	1.8

- Both net sales and operating income increased due to soaring prices because of shortage of timber on a global scale, as well as an increase in the number of new housing starts.

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In the energy business, both sales and profits decreased due to the completion of rapidly changing mitigation measures in the Feed-in Tariff (FIT) fixed-price system to promote renewable energy, as well as the sharp rise in raw material and fuel prices.

In the wood products and construction-related business, both sales and profits increased YoY due to factors such as an increase in the number of new housing starts, in addition to soaring prices for timber and building materials due to a shortage of timber supplies on a global scale.

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Consolidated Statement

(¥billion)

	FY2021/3 Results	FY2022/3 Forecast	Variance	
			Amount	%
Net sales	1,007.3	1,030.0	22.7	2.2%
Operating income	19.2	14.0	-5.2	-27.2%
Ordinary income	12.3	14.0	1.7	14.0%
Net income *	3.2	1.0	-2.2	-68.7%

* Profit attributable to owners of parent

Major assumptions (Reprinted from the November 2021 announcement)

Domestic Sales Volume (YoY)

	Revised Forecast	
	2nd Half	Full year
Newsprint	-4%	-6%
Printing	-7%	0%
Business communication	-1%	1%
Containerboard	-2%	-1%

Major raw material prices and FOREX

	Revised Forecast (2nd Half)
FOREX(USD)	JPY 115/USD
FOREX sensitivity(USD)	+600 million yen/year due to 1 yen appreciation
Coal (Australian coal benchmark price)	Taking into account the most recent market conditions
Crude oil (Dubai)	USD 85/BL
Wastepaper	Current level continues

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There is no change in the full-year earnings forecast for FY2022/3 from that announced on November 5, 2021.

This concludes my explanation of the Q3 financial results. Thank you very much.

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