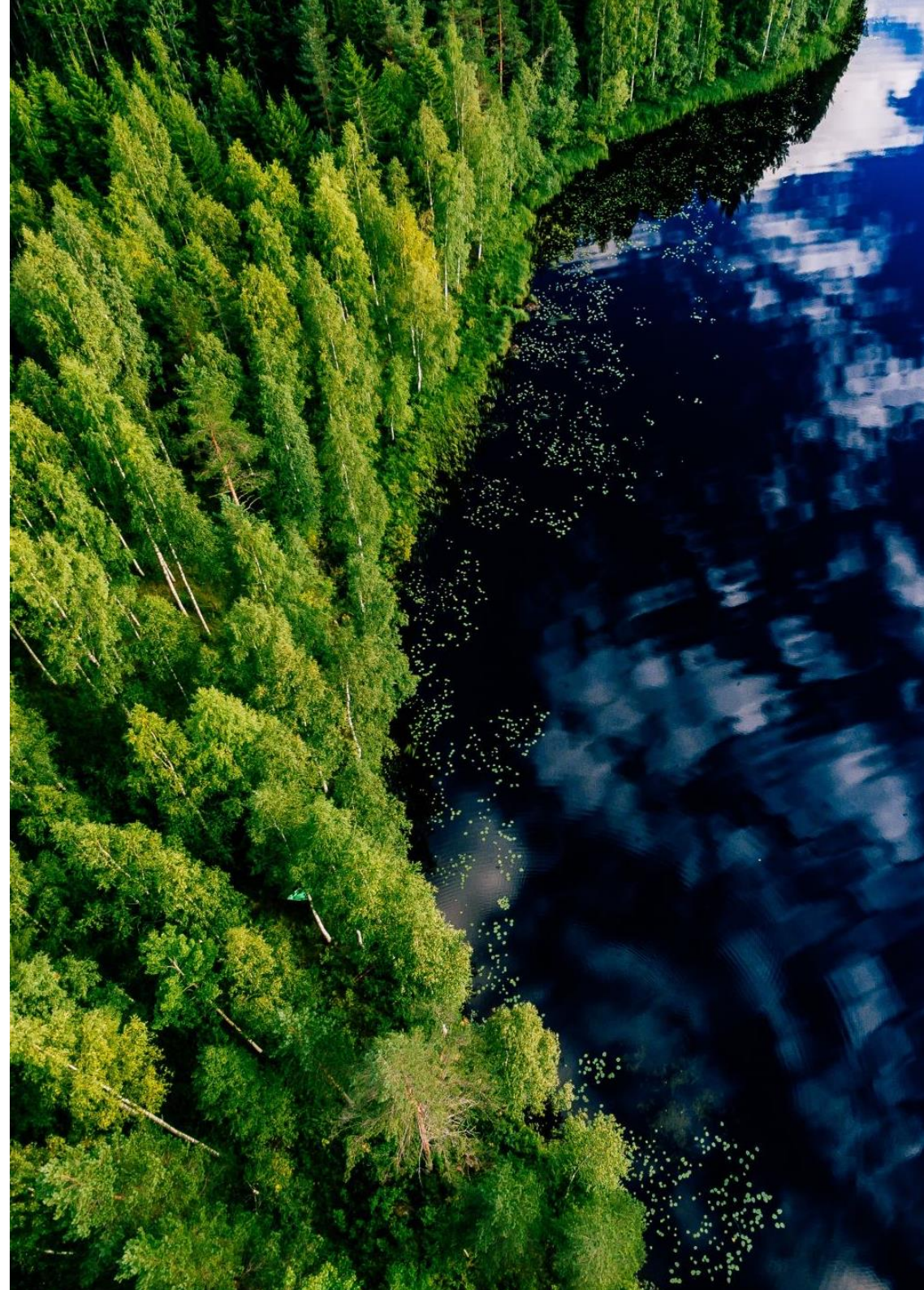




Global Paper Industry Dynamics, M&A Trends and Opportunities for Chinese Companies

Rainer Häggblom

Prepared for CPICC 2018



Content

1. Global P&P Industry Consolidation
2. China Industry Restructuring
3. M&A Trends and Opportunities



Vision

We want to be the first choice for forest industry advisory and strategic consulting services.

Values

INDEPENDENT

We create value for our clients by providing tailored solutions based on independent analytical opinions.

CLIENT FIRST

The client's interests always come first – we go the extra mile for our clients.

INTEGRITY

We do what is right - we apply the best working standards complying with laws and regulations respecting rules of engagement.

Global Strategy Advisory

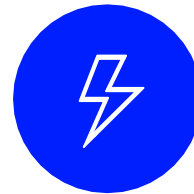
We are a network of independent thinkers and draw from the deep experience of our global team.

[We have a passion to turn great ideas to reality.](#)

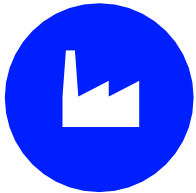
We have expertise covering all critical parts of the forest industry sector:



Fiber



Energy



Biorefinery



Chemicals



Paper, Paperboard and Packaging



Forest Assets



Tissue Hygiene



Wood Products

Key Client Services

We provide strategic advisory services in the forest industry sector and assist our clients in making [the smartest strategic choices for future value creation.](#)

Strategic Analysis

- Corporate strategies
- Business, market and product strategy
- Energy strategies
- Conversion strategies
- Second opinions

M&A Services

- Partner search
- Screening of acquisition targets
- Information memoranda
- Business and technical due diligence
- Post merger services

New Business Opportunities

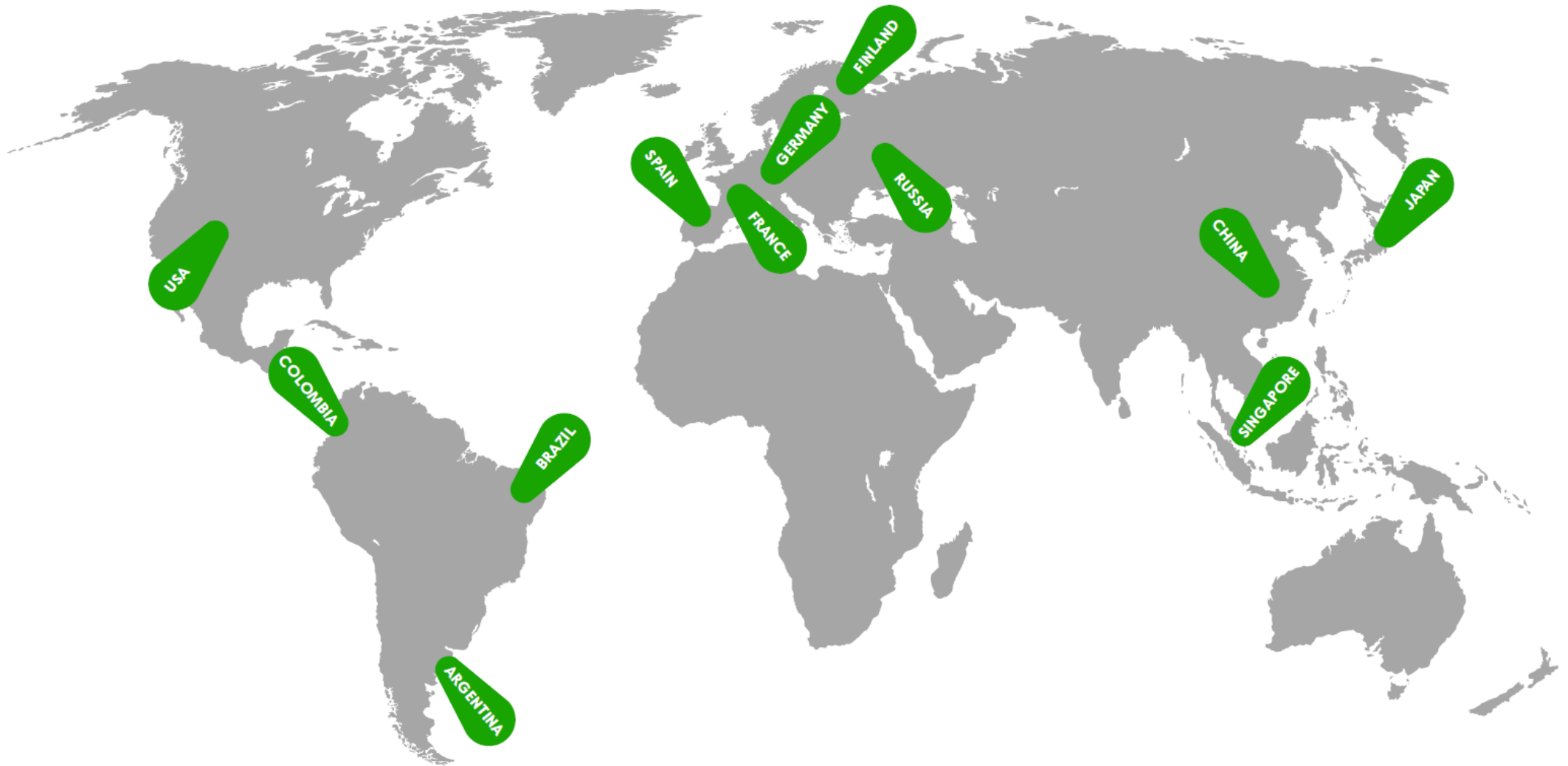
- Business opportunity screening
- Development of new business
- Market and end use analysis
- Feasibility studies

Operations Improvement

- Technical feasibility
- Operations, maintenance and quality improvement
- Supply chain management
- Strategic sourcing & purchasing

A Global Network of Expertise

Collective knowledge of global networks of consultants and associates.



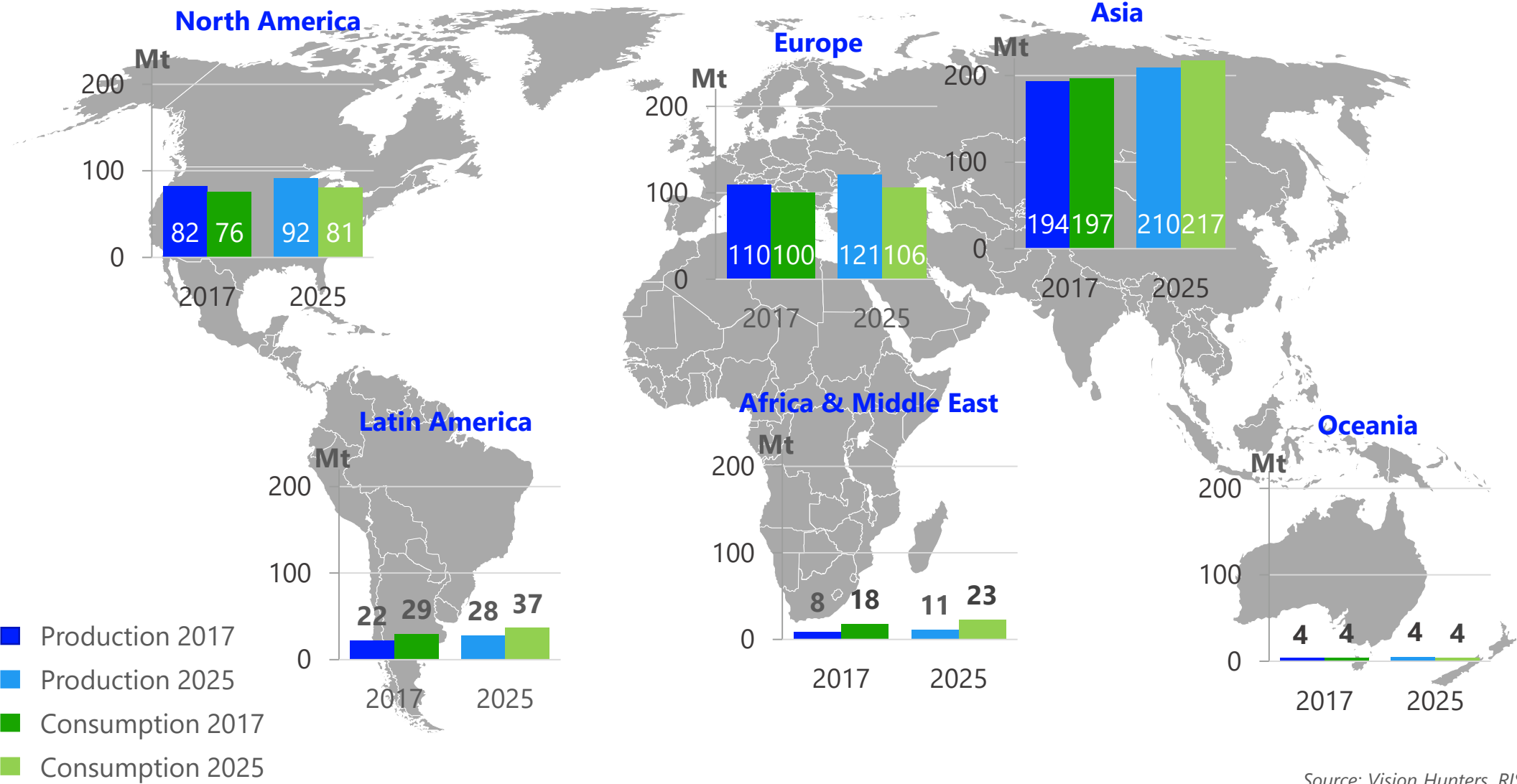
Content

1. Global P&P Industry Consolidation
2. China Industry Restructuring
3. M&A Trends and Opportunities



Global Paper and Board Production

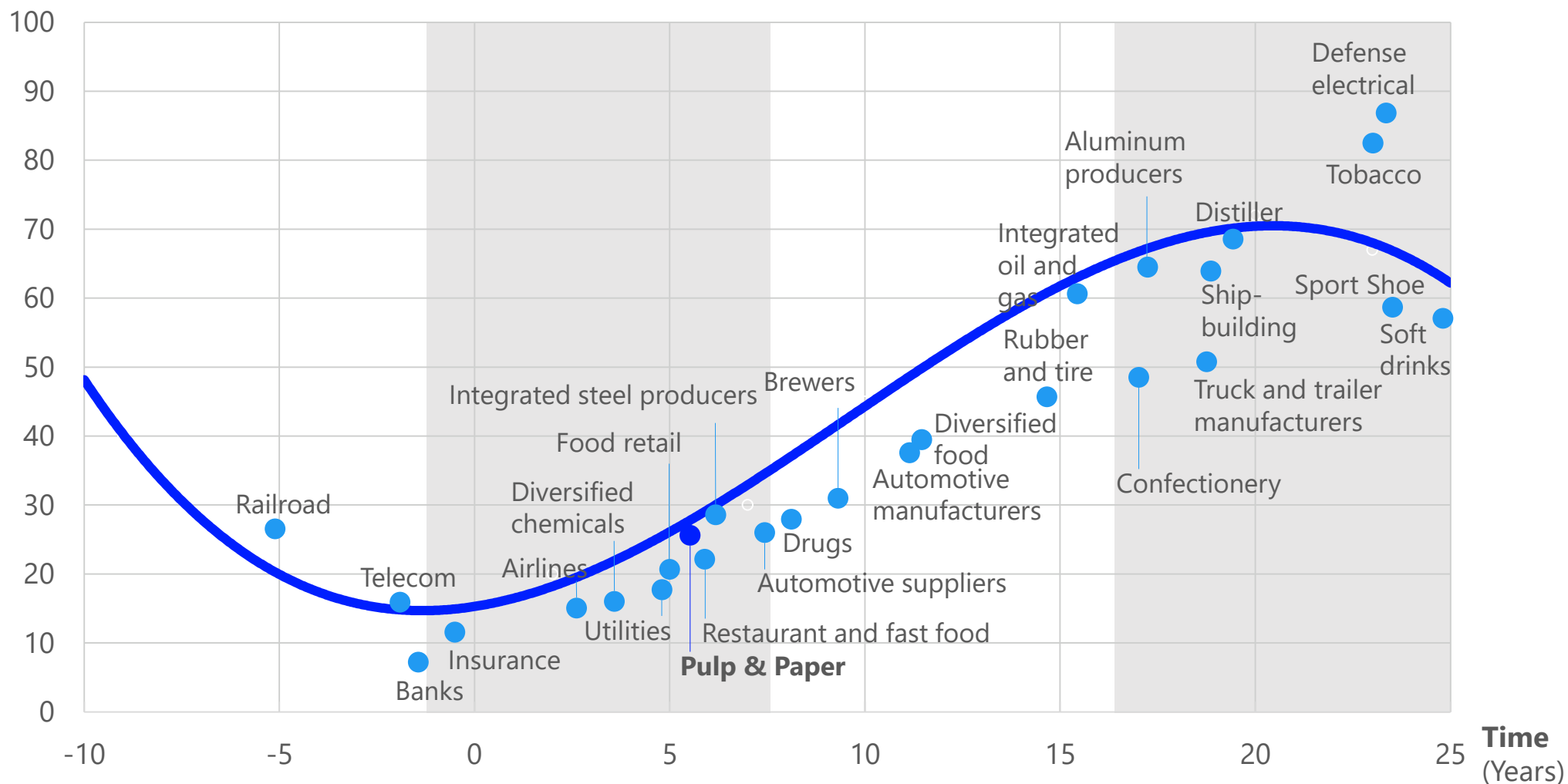
Global Production in 2017 was 420 Mt. Growth up to 2025 is estimated at 46 Mt



Source: Vision Hunters, RISI

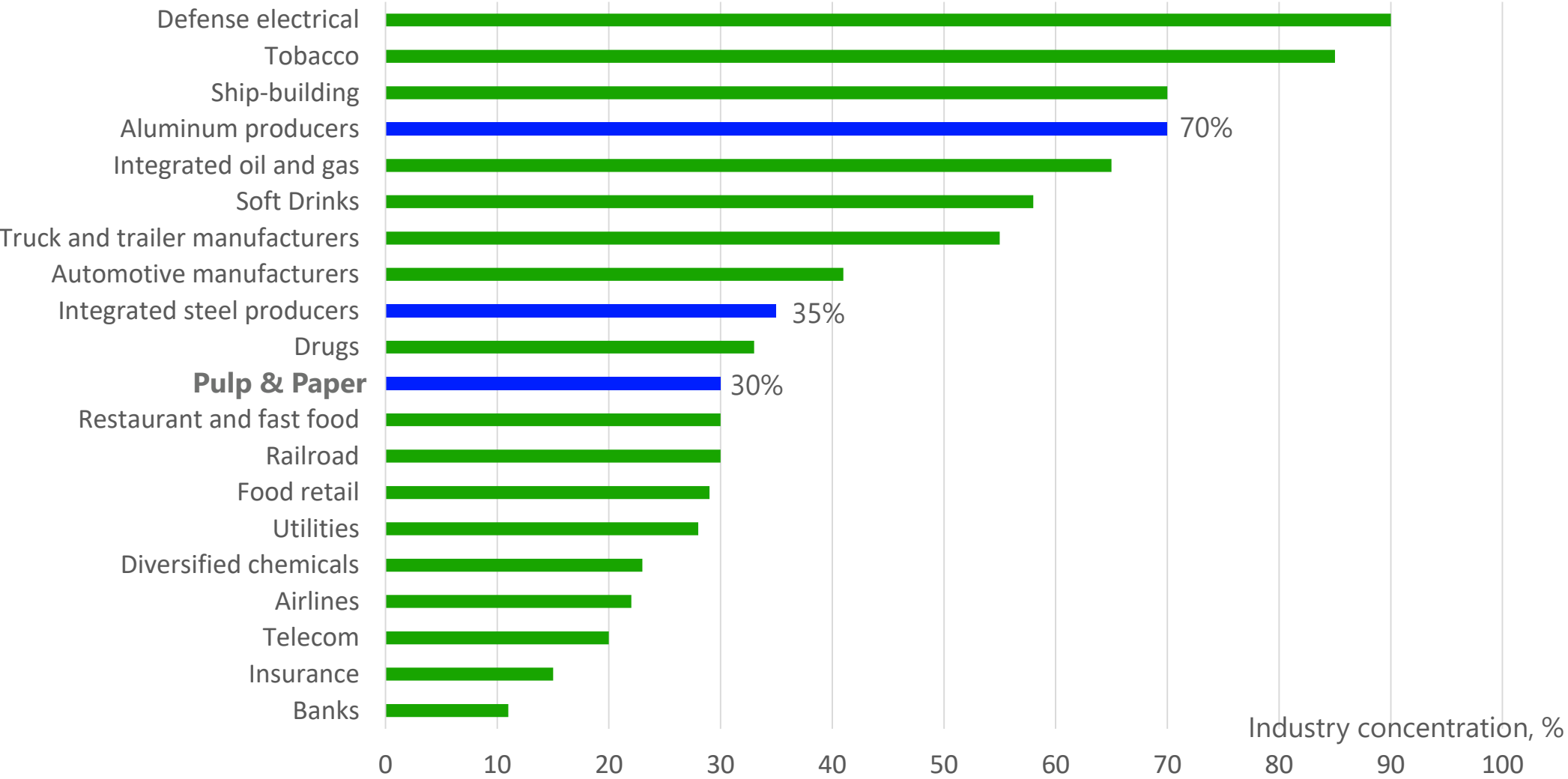
Most Industries Progress Through a Clear Consolidation Life Cycle

Industry Concentration 1989-2001 (CR3)



Source: *Winning the Merger Endgame* by Graeme Deans, Fritz Kroeger, and Stefan Zeisel: A.T. Kearney analysis

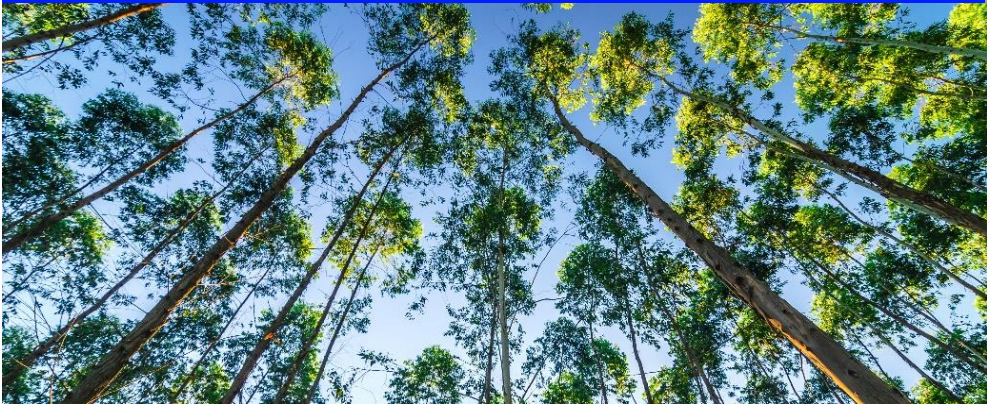
Consolidation within Global Industries



Source: *Winning the Merger Endgame* by Graeme Deans, Fritz Kroeger, and Stefan Zeisel: A.T. Kearney analysis

Driver for Consolidation in the Pulp and Paper Industry is Shareholder Value

Raw Material Availability



Competitiveness



Balance Sheet vs. Capital Intensity of Growth

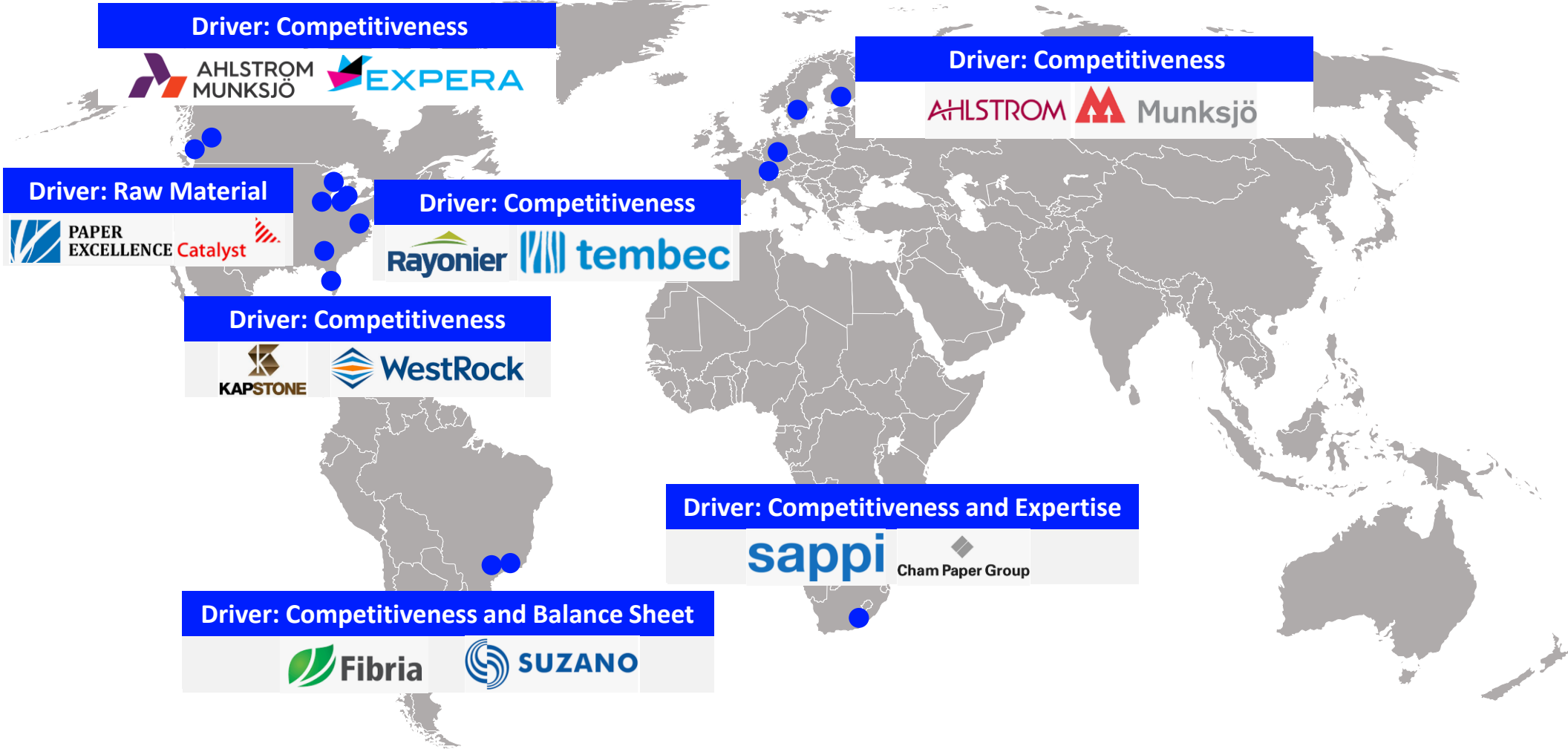


Expertise



M&As in the Pulp and Paper Industry

Examples of Recent Major M&As

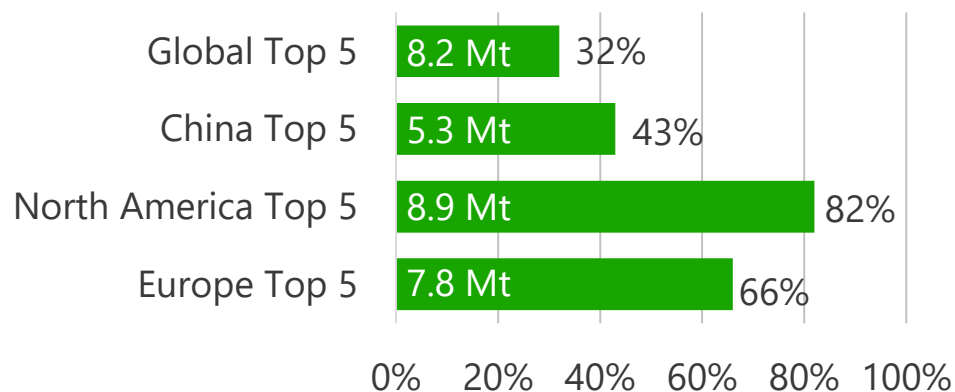


Source: Vision Hunters

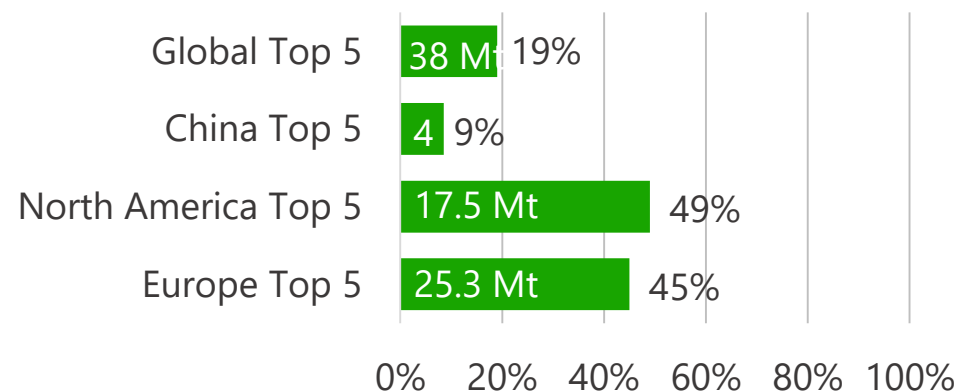
Consolidation in the Pulp and Paper Industry

There is still room for consolidation in the pulp and paper industry

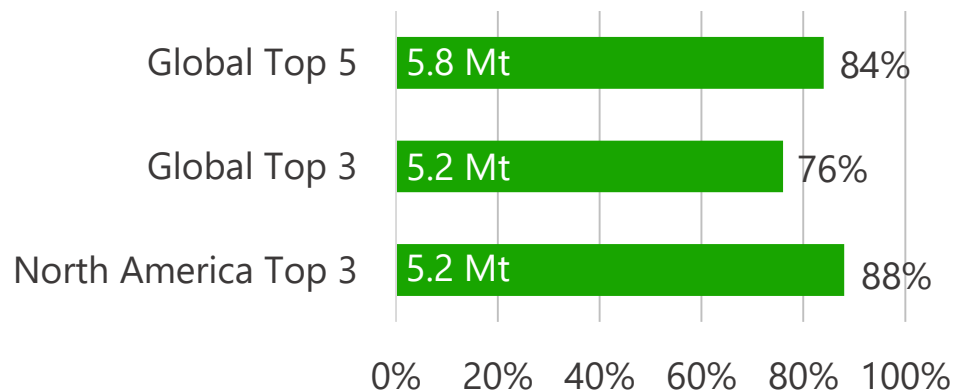
Tissue



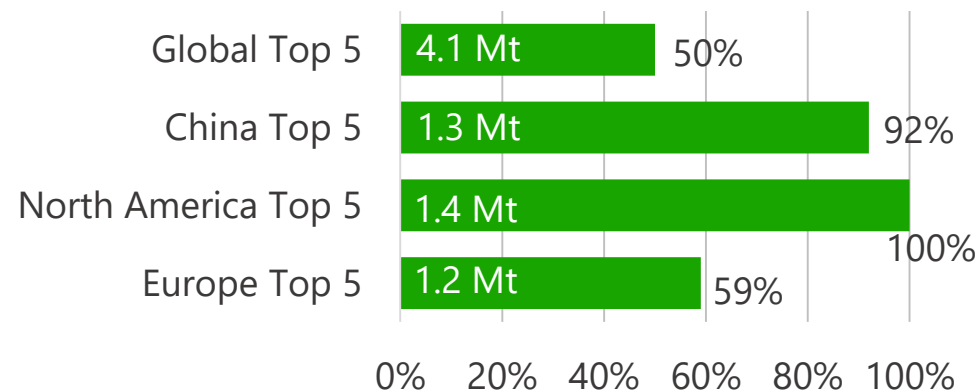
Total Paper ⁽¹⁾



Fluff



Dissolving Pulp



¹⁾ Including all paper and paperboard

Source: Vision Hunters, RISI

Content

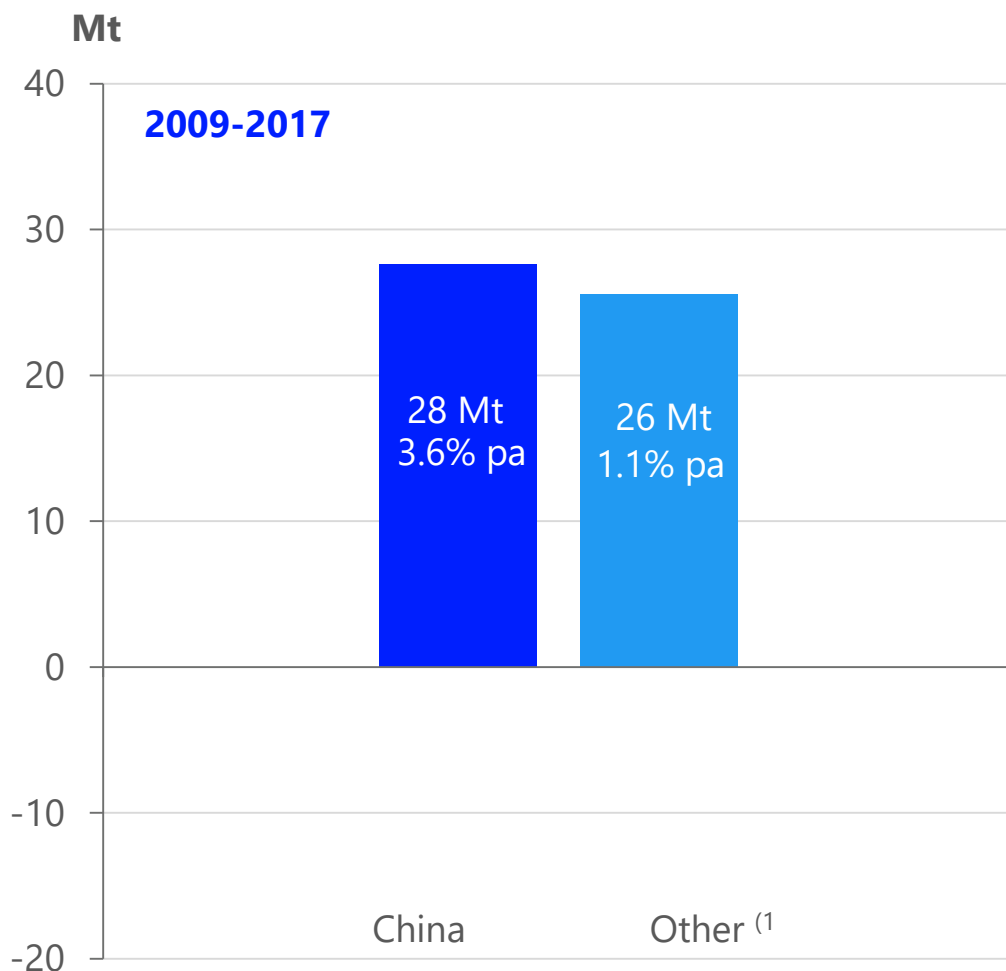
1. Global P&P Industry Consolidation
2. China Industry Restructuring
3. M&A Trends and Opportunities



China has Led the Industry Growth

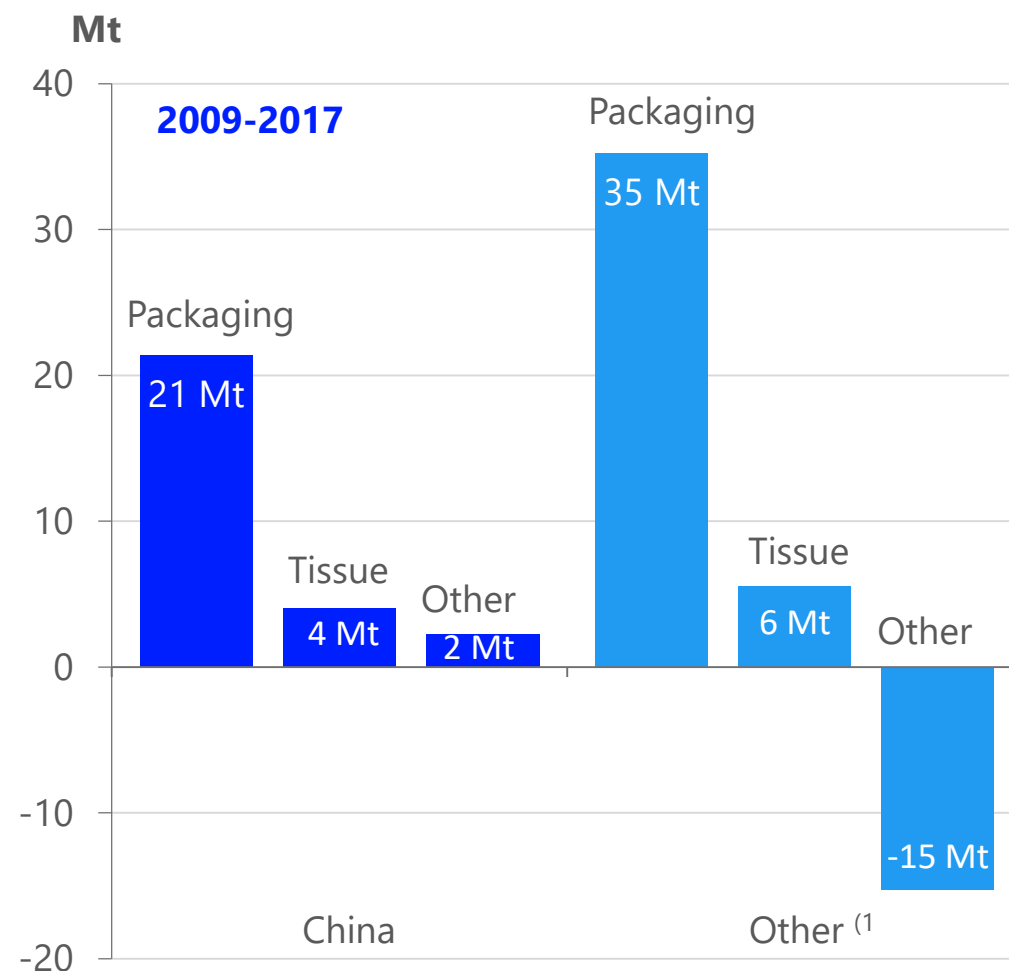
Key drivers have been growth in China and in packaging and tissue grades

Global Paper and Board Demand Growth



1) Including world total excluding China

Global Demand Growth by Grade

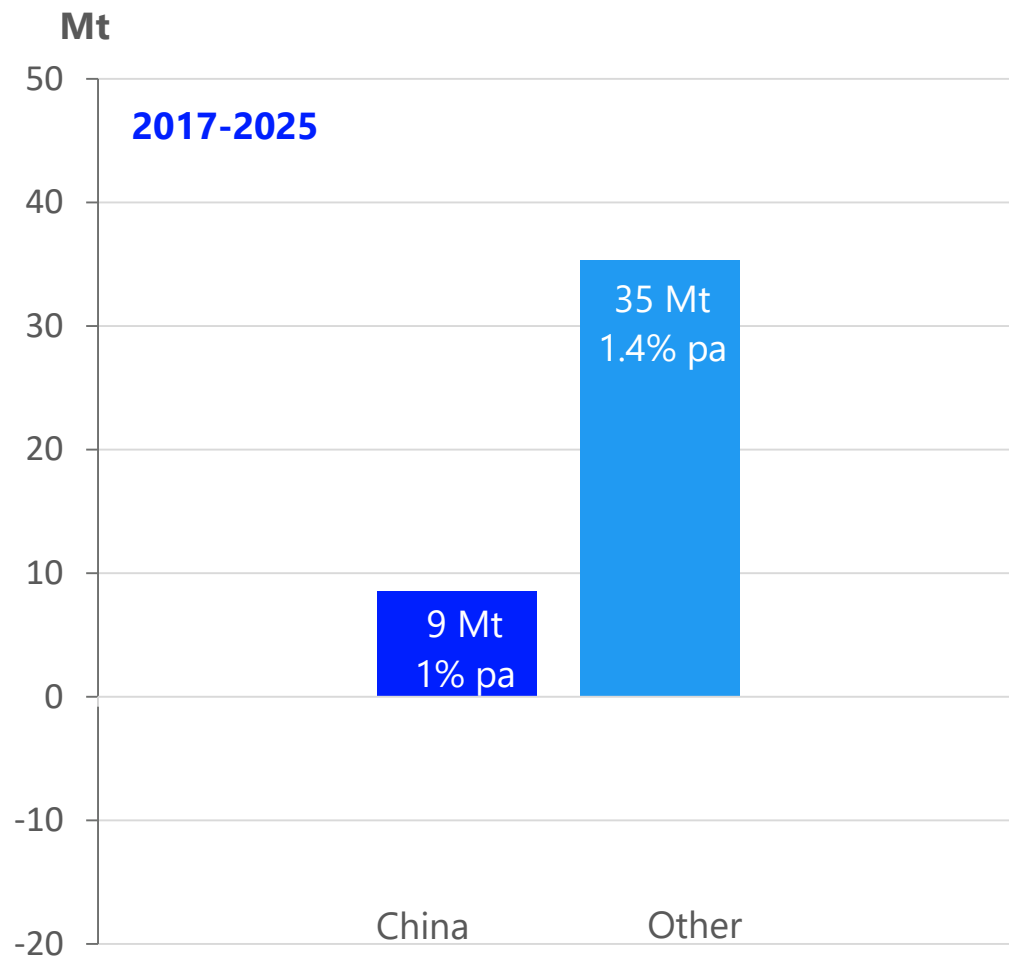


Source: Vision Hunters, RISI

Asia Led by China Continues to Drive the Growth

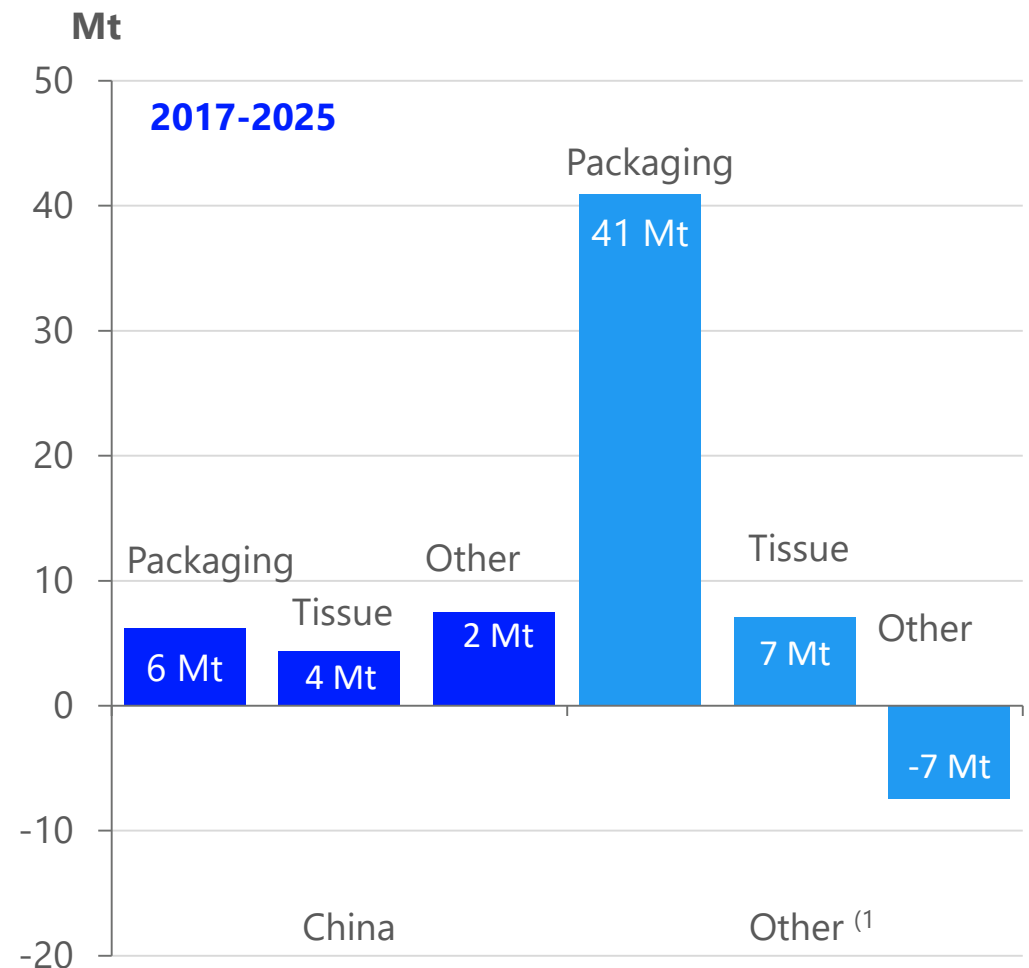
China continues to be the key driver for demand growth but with a decelerated pace

Paper and Board Demand Growth



1) Including world total excluding China

Global Demand Growth by Grade

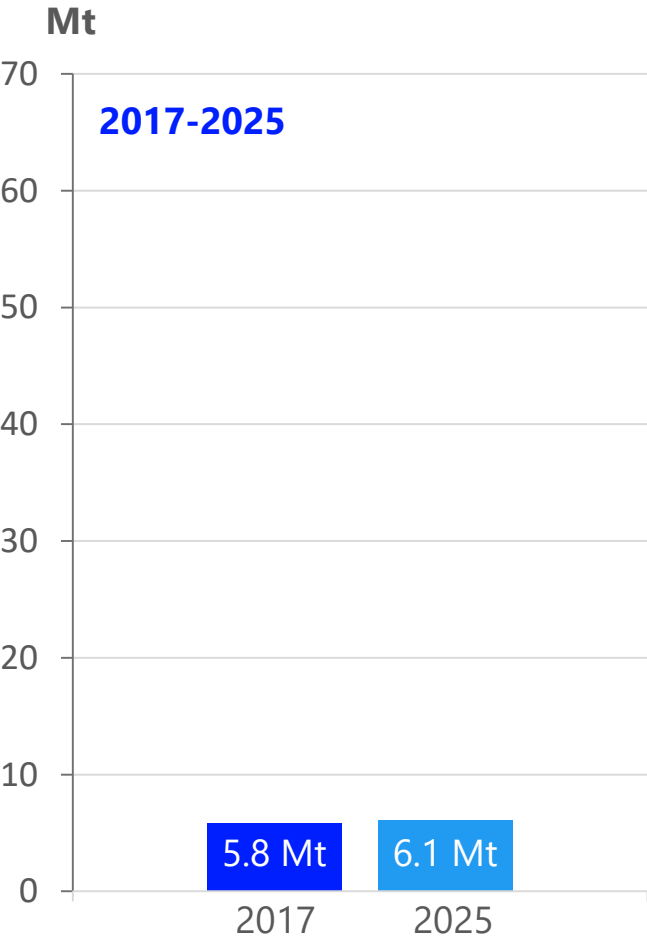


Source: Vision Hunters, RISI

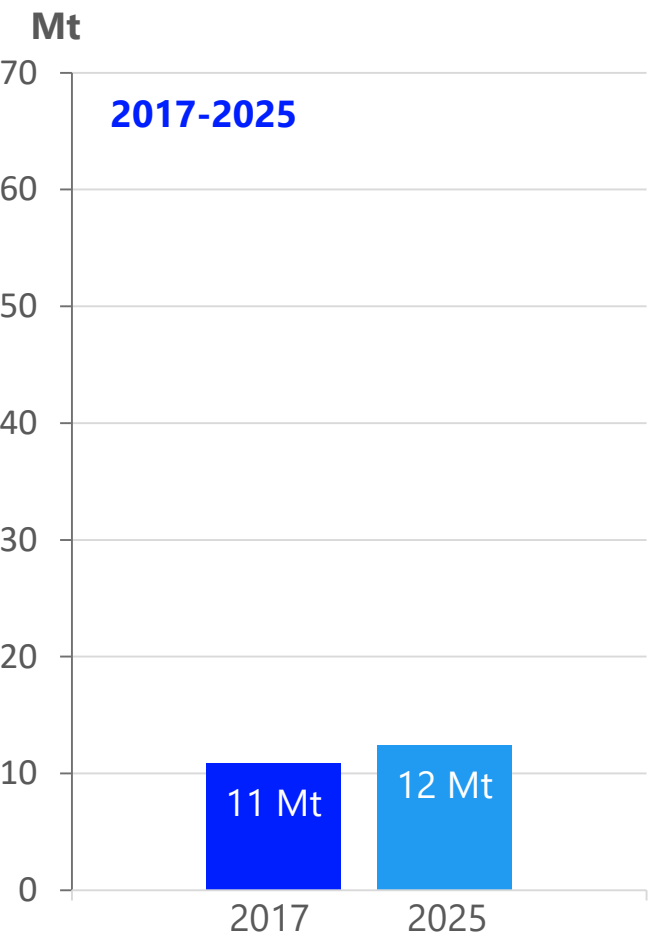
Chinese Domestic Fiber Supply is Growing Slower

Chinese fiber supply is limited and fiber furnish is converging towards virgin fiber

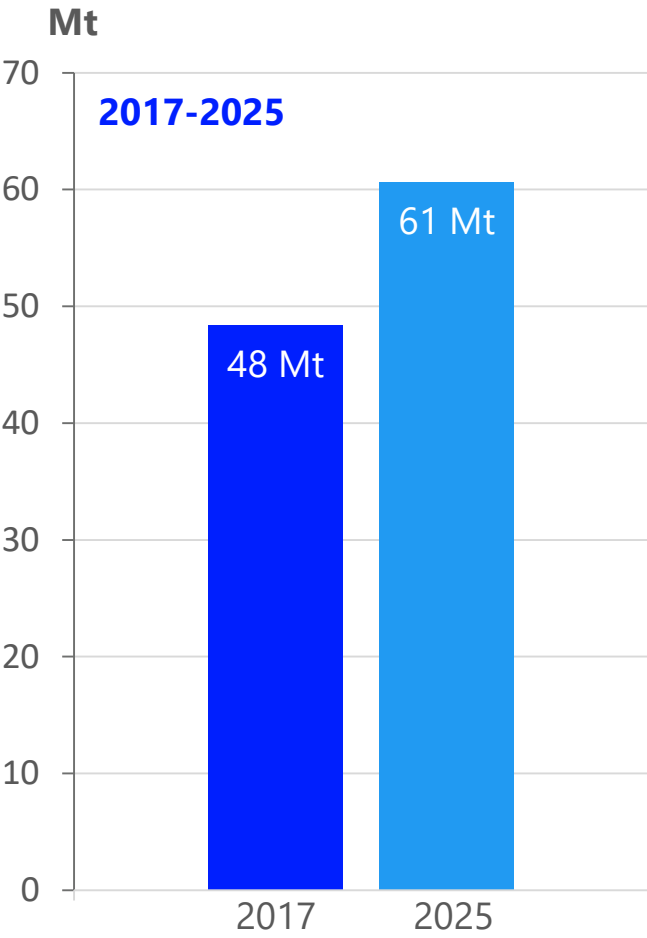
Domestic Non Wood Pulp



Domestic Wood Pulp



Domestic RCF

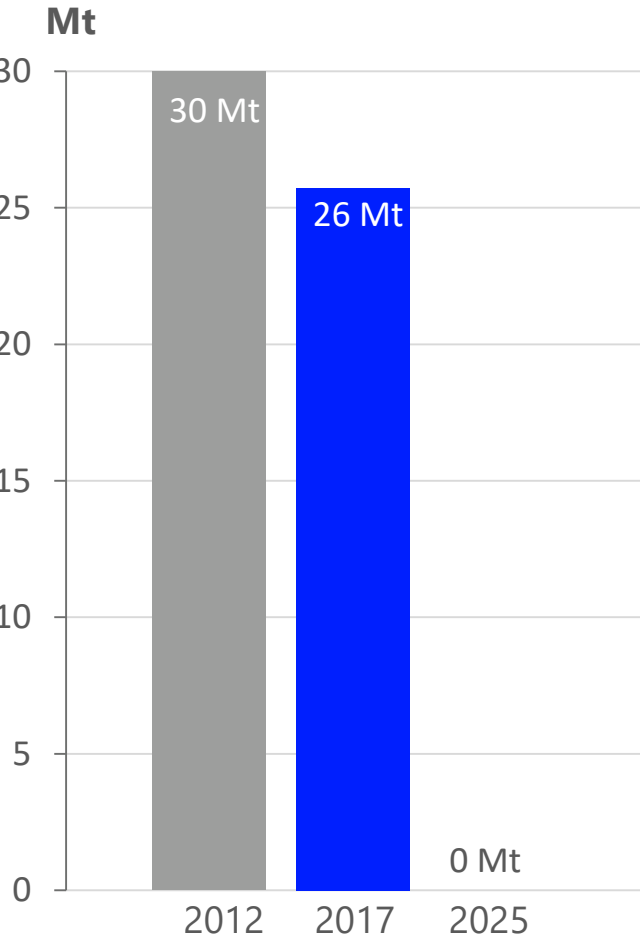


Source: Vision Hunters

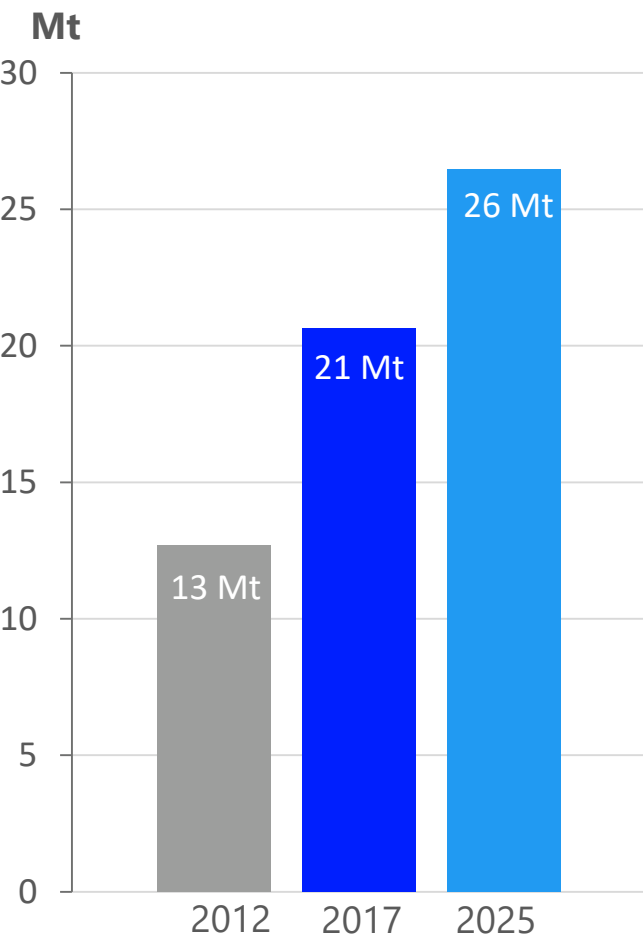
Increasing Share of Fiber is Imported

Imports of all fiber grades, except recycled, have been increasing in China

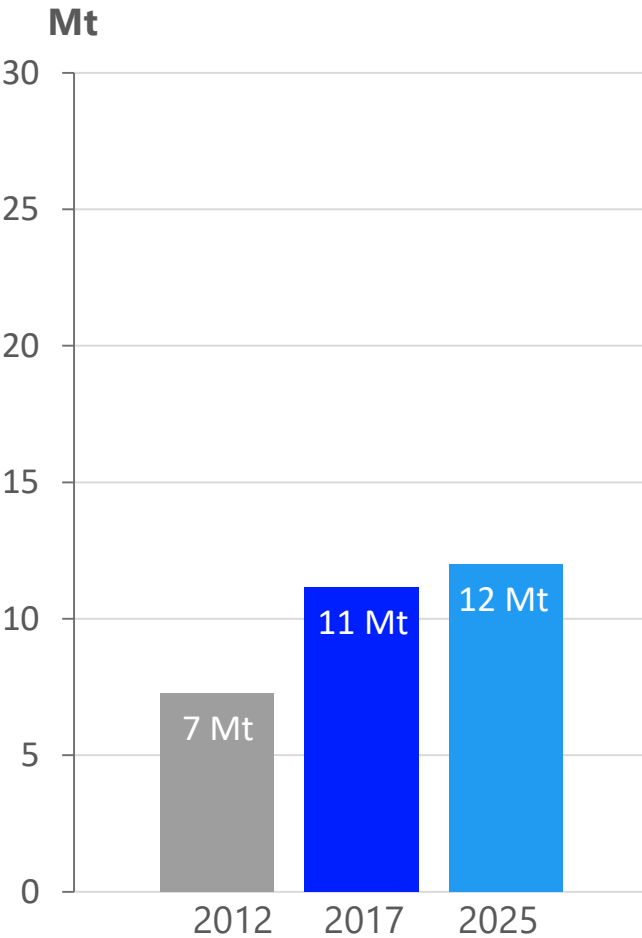
Waste Paper Imports



Pulp Imports



Wood Chip Imports



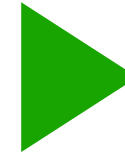
Source: Vision Hunters, RISI

Chinese Industry Restructuring

Change is driven by three key drivers

Sustainability and Regulations

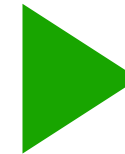
Waste paper import ban
Environmental targets and emission reduction
Change driven by urbanization



- Capacity closures and relocations
- Consolidation
- M&A in packaging grades

Overcapacity in Many Grades

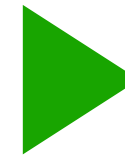
Low operating rates
Exits of uncompetitive capacity



- Grade change toward consumer grades and specialty paper grades
- M&A in specialty paper grades

Shortage of Fiber

RCF availability limited due to import ban
Domestic pulpwood availability limited, production partly based on imported wood chips



- M&A in packaging grades and pulp

Recent Chinese M&A Activities

Examples of Chinese FDIs in the pulp/fiber assets are mushrooming

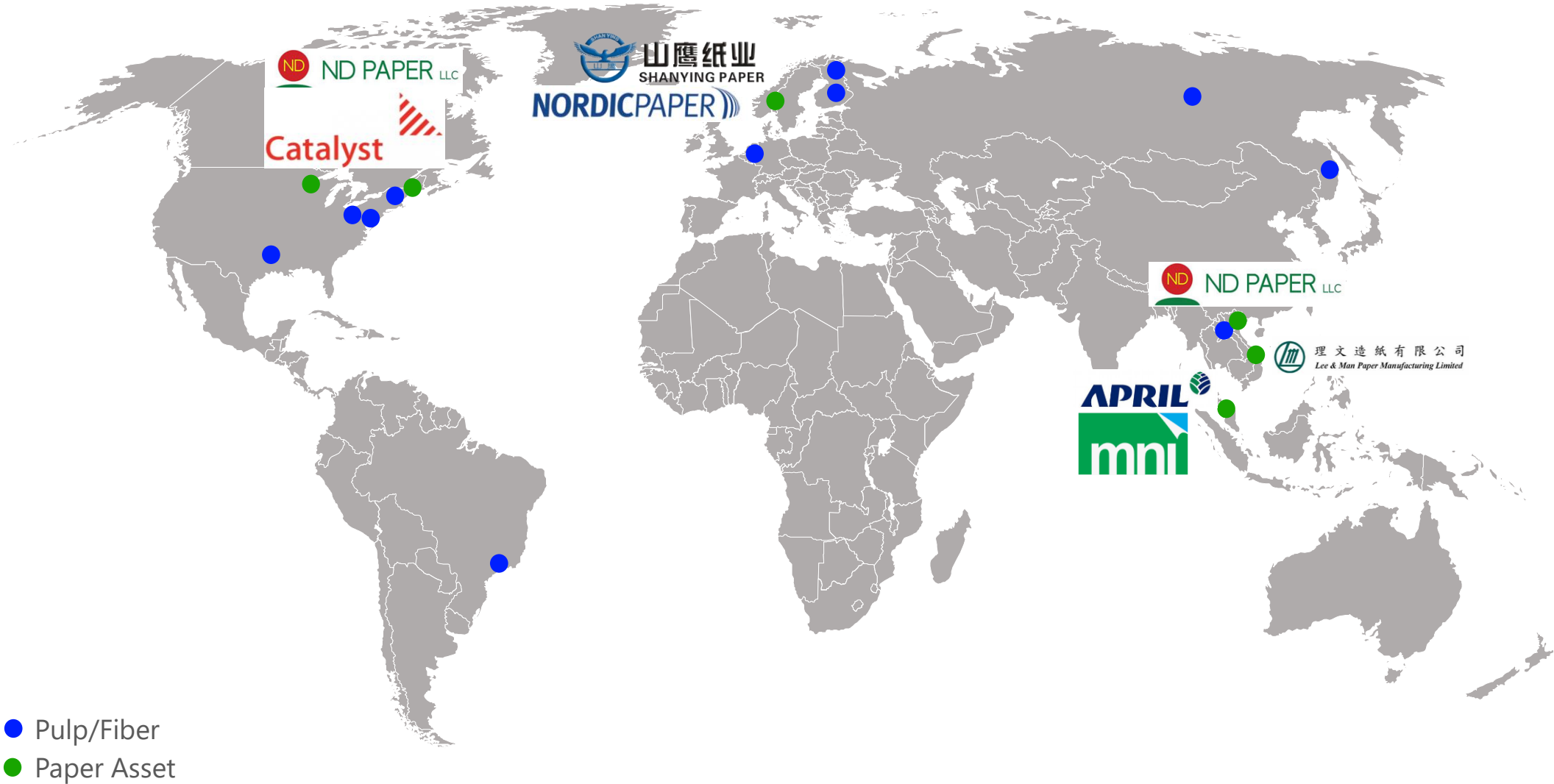


● Pulp/Fiber

Source: Vision Hunters, Publicly disclosed information

Recent Chinese M&A Activities

Examples Chinese FDIs in the paper assets have also been numerous



Source: Vision Hunters, Publicly disclosed information

Chinese FDI in Pulp & Paper

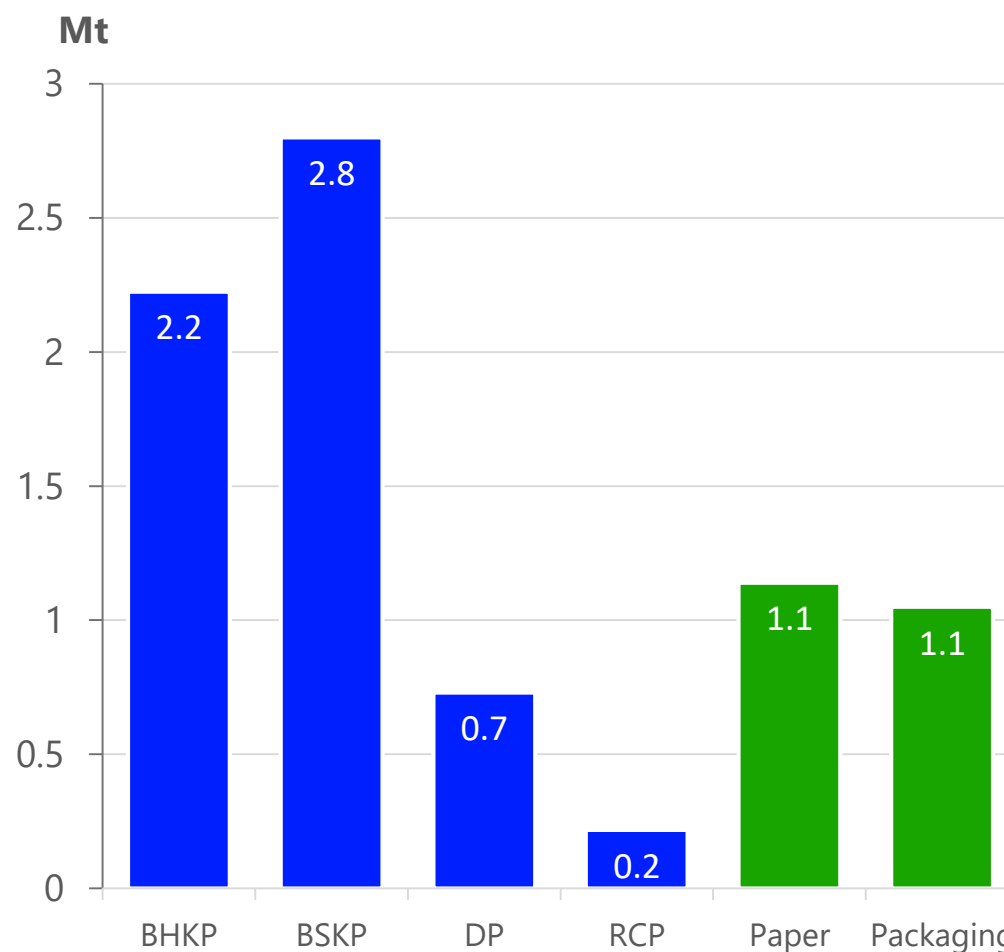
Chinese investments have targeted both green- and brownfield projects

EXAMP. Transactions / Disclosed Investments 2017-2018

Company	Location	Target	Grade	MUSD
APP*	Brazil	Eldorado	BHKP	4 700
April	Brazil	Lwarcel	BHKP	465
April	Malaysia	MNI	Newsprint	16
Chentong	Russia	New mill	BSKP	1 000
China 22MCC	Russia	Siberwood	BSKP/DP	1 500
Hengan	Finland	Finnpulp	BSKP	13.3
Lee & Man	Vietnam	New PM	Linerboard	NA
Nine Dragons	USA	OTM	BHKP	NA
Nine Dragons	USA	Resolute	RCP	55
Nine Dragons	USA	Catalyst	Fine Paper	175
Nine Dragons	USA	Catalyst	Fine Paper	175
Nine Dragons	Vietnam	New PM	Linerboard	NA
Shanying	USA	Verso	Kraft Pulp	16
Shanying	Holland	WPT	RCP	NA
Shanying	Finland	New mill	BSKP	NA
Shanying	Sweden	Nordic Paper	Packaging	280
Sun Paper	USA	New mill	Fluff/DP	1 800
Sun Paper	Laos	New mill	BHKP/DWP	NA

*minority shareholder

Acquisitions by Grade 2017-2018



Source: Vision Hunters, Publicly disclosed information

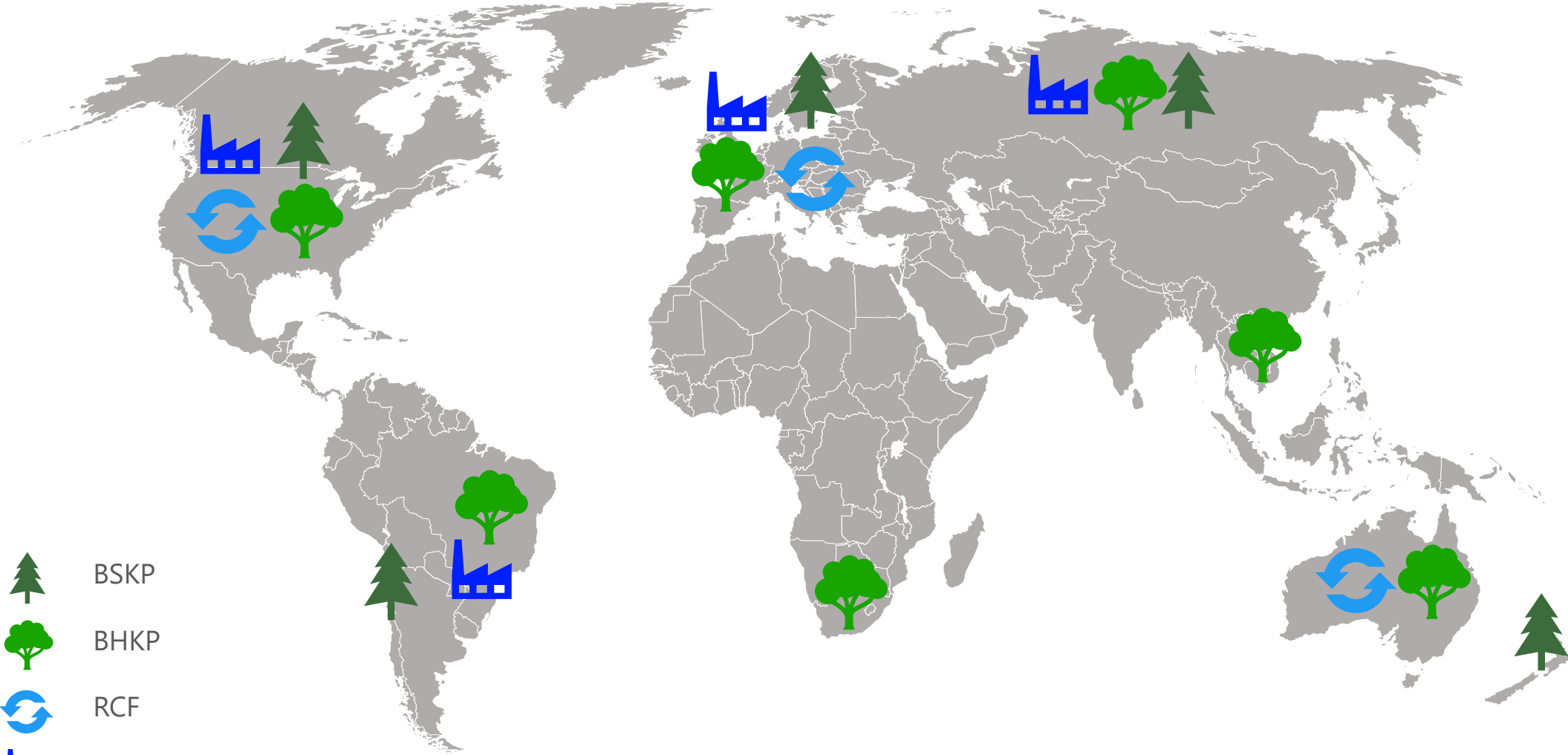
Content





1. Global P&P Industry Consolidation
2. China Industry Restructuring
3. M&A Trends and Opportunities



M&A Opportunities for Chinese Companies

Acquisition targets vary by type and geography



-  BSKP
-  BHKP
-  RCF
-  Paper

Source: Vision Hunters

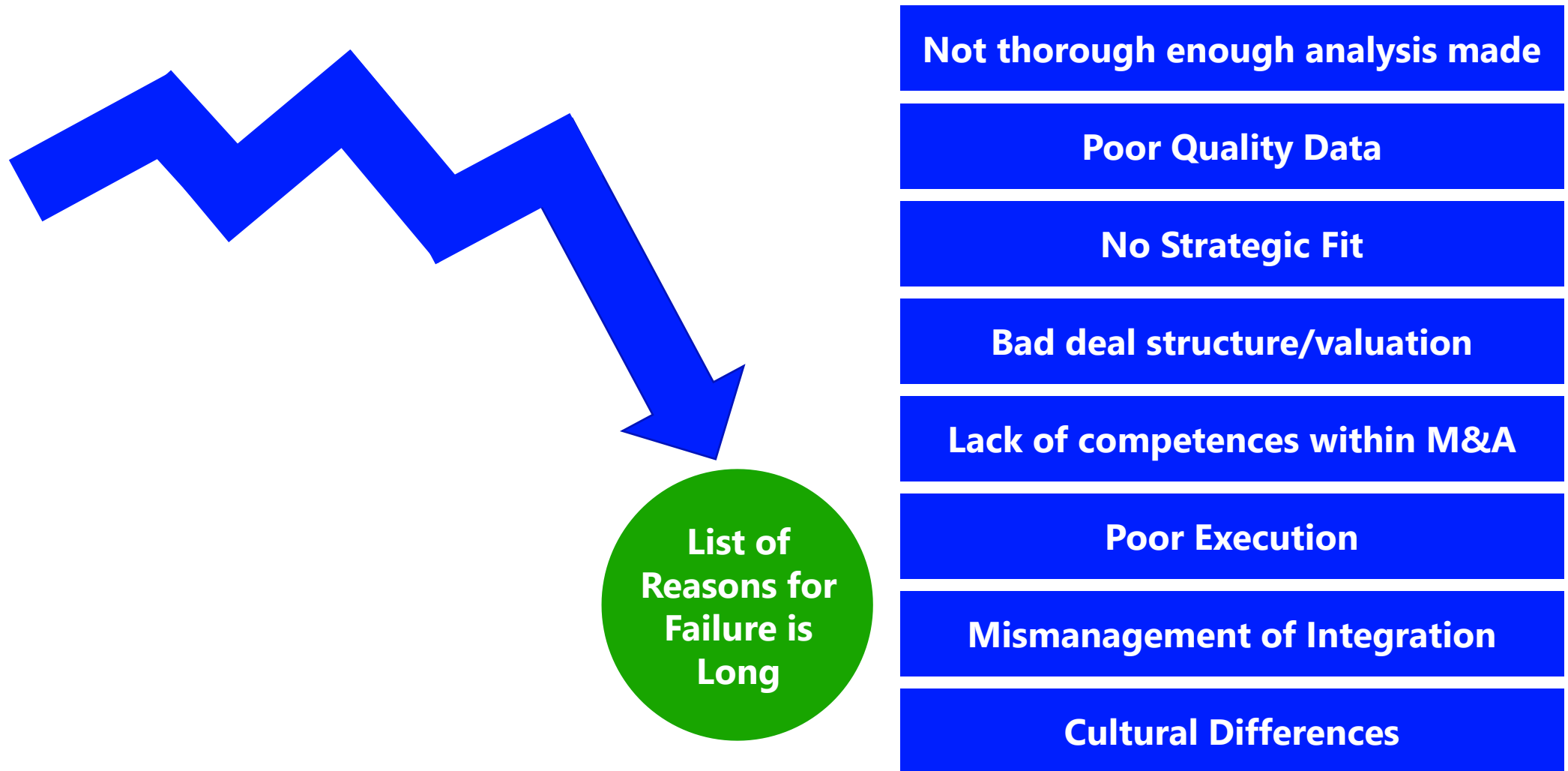
Vision Hunters has Broad Experience in M&A

Examples of Past Projects in M&A



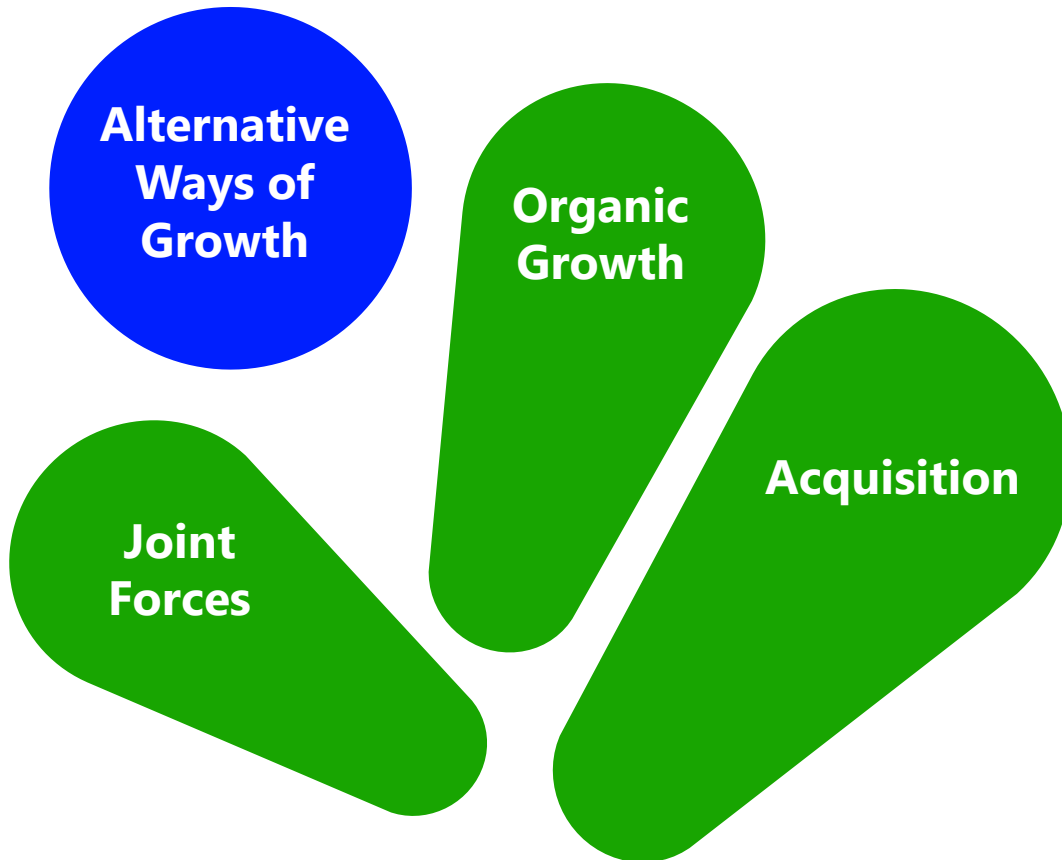
Failure of M&A

Failure of M&A is common leading to a high failure rate



How to Guarantee Success

Some key issues we have witnessed over the years



Benefits of M&A

- ▶ Economies of scale
- ▶ Competitive edge
- ▶ Company value creation
- ▶ Knowledge transfer
- ▶ Winning concept
- ▶ Strategic competition
- ▶ Entry barrier
- ▶ Expertise

Key Conclusions

Potential for M&A in the P&P industry, and especially in China, is buoyant

Industry Consolidation

- There is room for increased consolidation in pulp & paper industry, in China and globally
- Major M&As, both globally and in China, have been announced recently and trend is expected to continue

Industry Restructuring

- Asia continues as a major driver for paper, paperboard and fiber demand growth.
- China is heavily reliant on imported raw materials, and a drastic drop in RCF imports will change the fibre furnish
- Recent regulatory developments and market competition in China have accelerated pressure for industry restructuring through closures, new investments and M&A, increasing industry consolidation

M&A Trends and Opportunities

- Chinese companies are looking for overseas investment opportunities.
- Acquiring foreign assets, gives access to new raw material sources in both pulp and paper.
- A series of measures need to be taken into account in order to guarantee a successful realization of an M&A

Thank You!

Kiitos! Xièxiè!

RAINER HÄGGBLOM
Chairman & Partner
rainer.haggbloom@visionhunters.com
+358 40 555 9567

IRIS OLLILA
Consultant
iris.ollila@visionhunters.com
+358 40 566 2641

