

# Market Update

April 2017

# Overview

- Background to inflationary pressure in Europe
- Rising costs in the UK
- The containerboard market
- The UK sheet feeding market
- The UK box market
- Summary

# Background to inflationary pressure in Europe

- Strong containerboard demand in Europe
- Rising OCC (Old Corrugated Containers) costs thanks to strong demand in Europe and from China
- Some paper makers are reported to be running at a loss – they need price rises to become sustainable again
- European paper mills scheduling downtime for maintenance
- A strong element of exporting tonnage at higher prices is keeping supply of recycled containerboard tight (European stocks are down 12% year-on-year to 560,000 tonnes)
- Closure of significant Chinese containerboard capacity for environmental reasons – leading them to import from Europe
- A major issue at a UK Kraft liner mill means it has lost 250,000 tonnes of output. As a result the Americans are not exporting to Europe, which has caused a shortfall over here

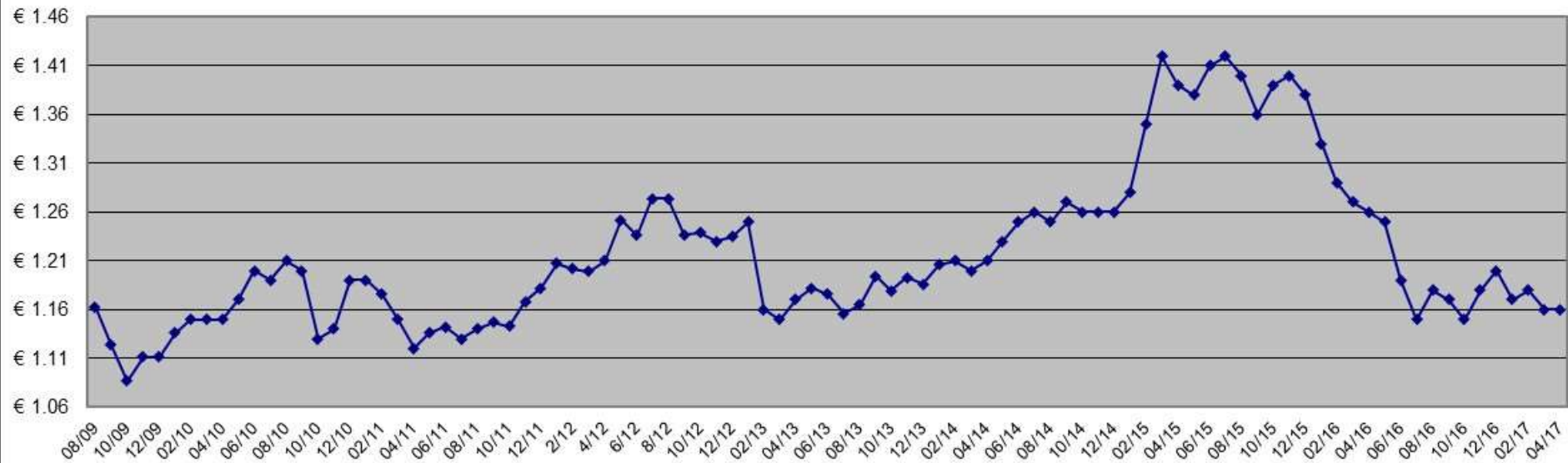
# UK national living wage

- Replaces the £6.50/hour minimum wage
- Set to rise by 40% to £9/hour by 2020
- Has taken many box plants to break even or even loss



# Brexit prompted a 20% fall in value of sterling

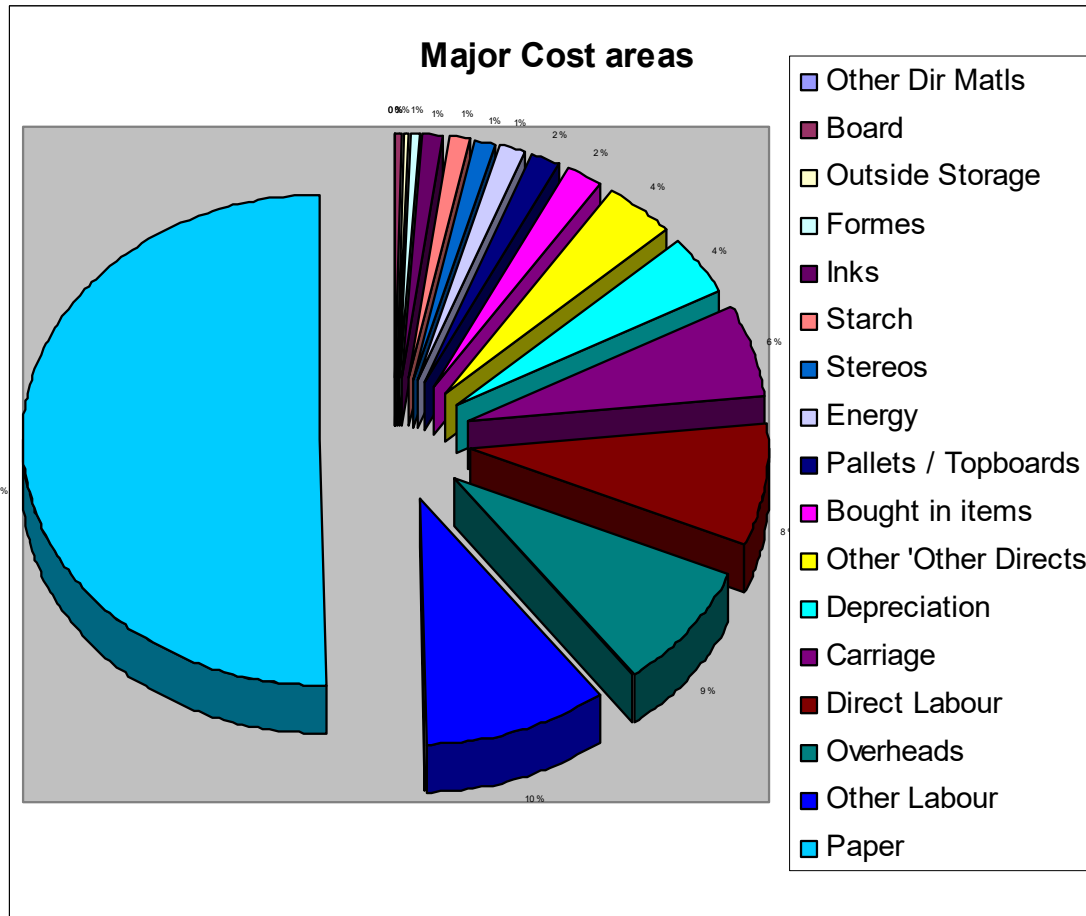
### Monthly Prices - Euro:Pound



### Monthly Prices - Dollar:Pound

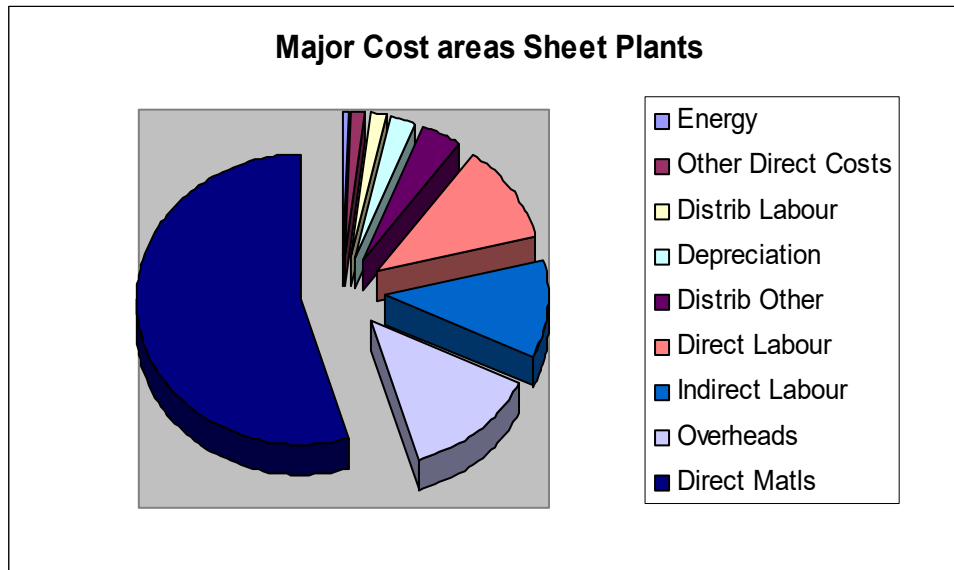


# Typical Major Cost Areas (Integrated)



Cost levels	%
Other Dir Matls	0.0
Board	0.2
Outside Storage	0.4
Formes	0.6
Inks	1.0
Starch	1.1
Stereos	1.3
Energy	1.3
Pallets / Topboards	1.6
Bought in items	2.0
Other 'Other Directs'	3.8
Depreciation	3.9
Carriage	6.2
Direct Labour	7.9
Overheads	8.5
Other Labour	10.0
Paper	50.2
Total Costs	100.0

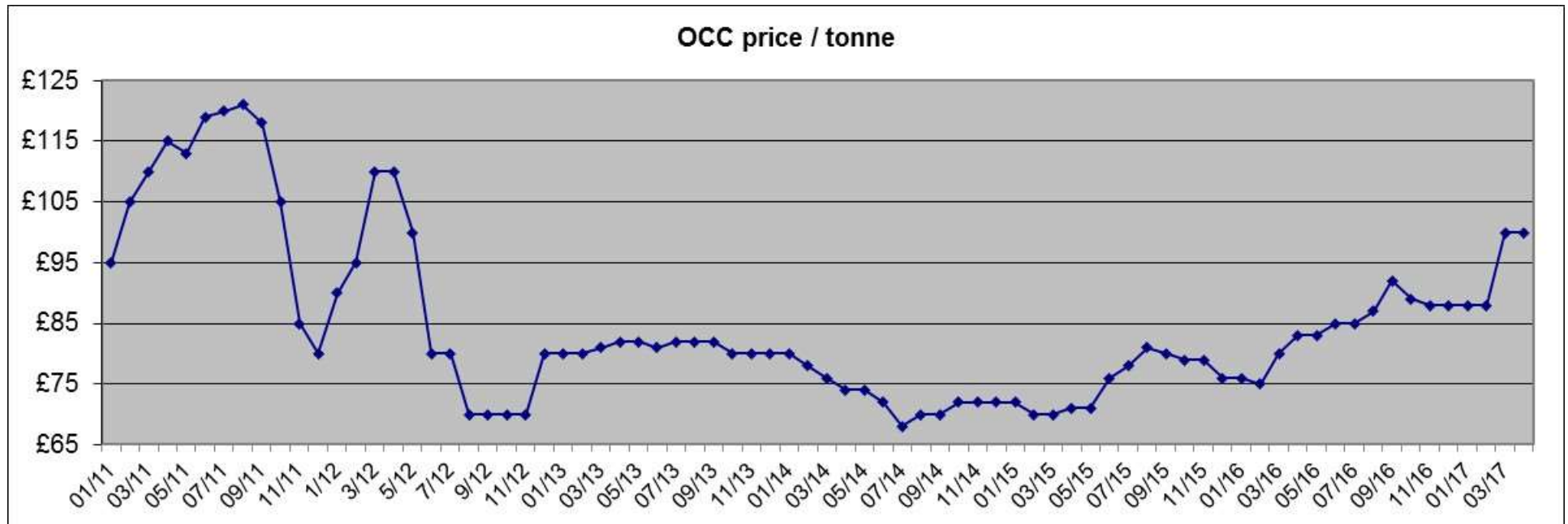
# Typical Major Cost Areas (Sheet Plant)



## Cost levels

	%
Energy	0.6
Other Direct Costs	1.4
Distrib Labour	1.6
Depreciation	2.6
Distrib Other	3.9
Direct Labour	10.9
Indirect Labour	11.0
Overheads	13.2
Direct Mats	54.8
<b>Total Costs</b>	<b>100.0</b>

# OCC prices are rising



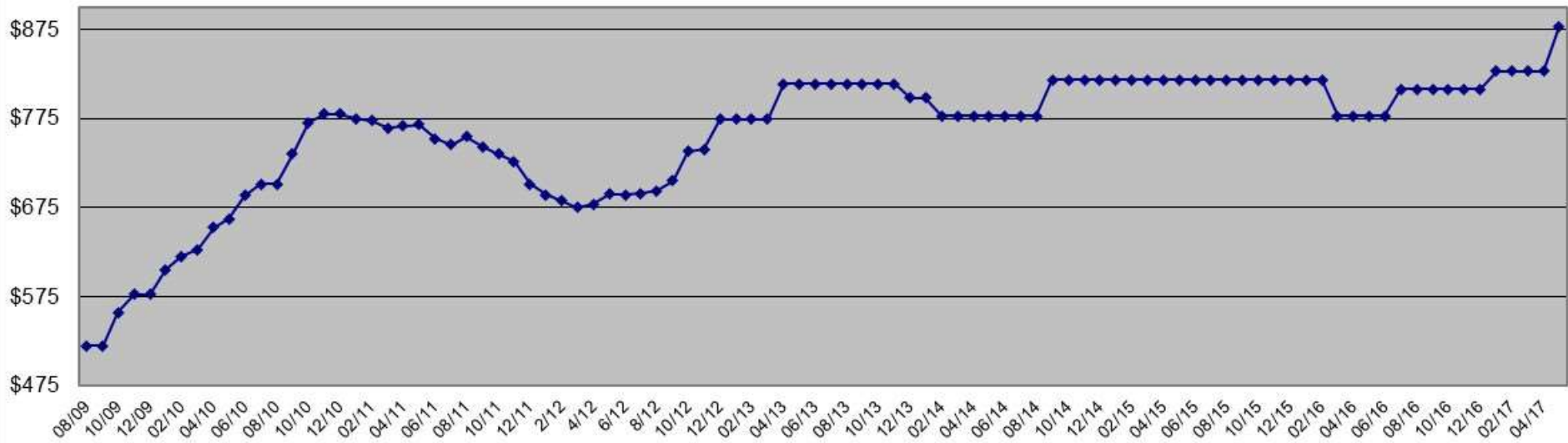


# The containerboard market

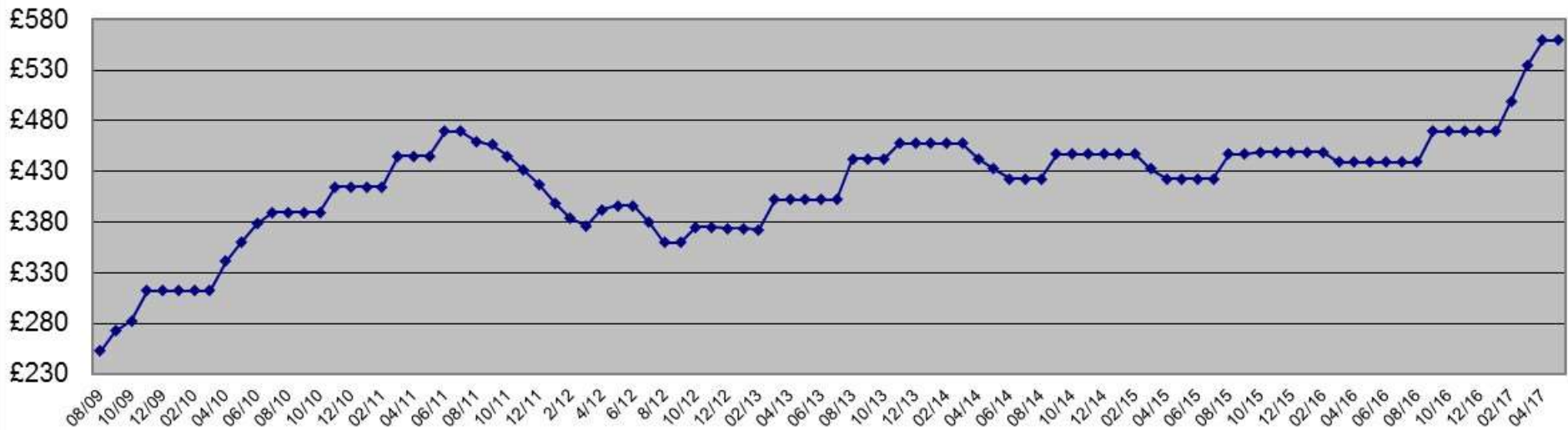
- Kraft liner prices are increasing
- Testliner prices are increasing

# Containerboard Prices

Monthly Prices - Kraft

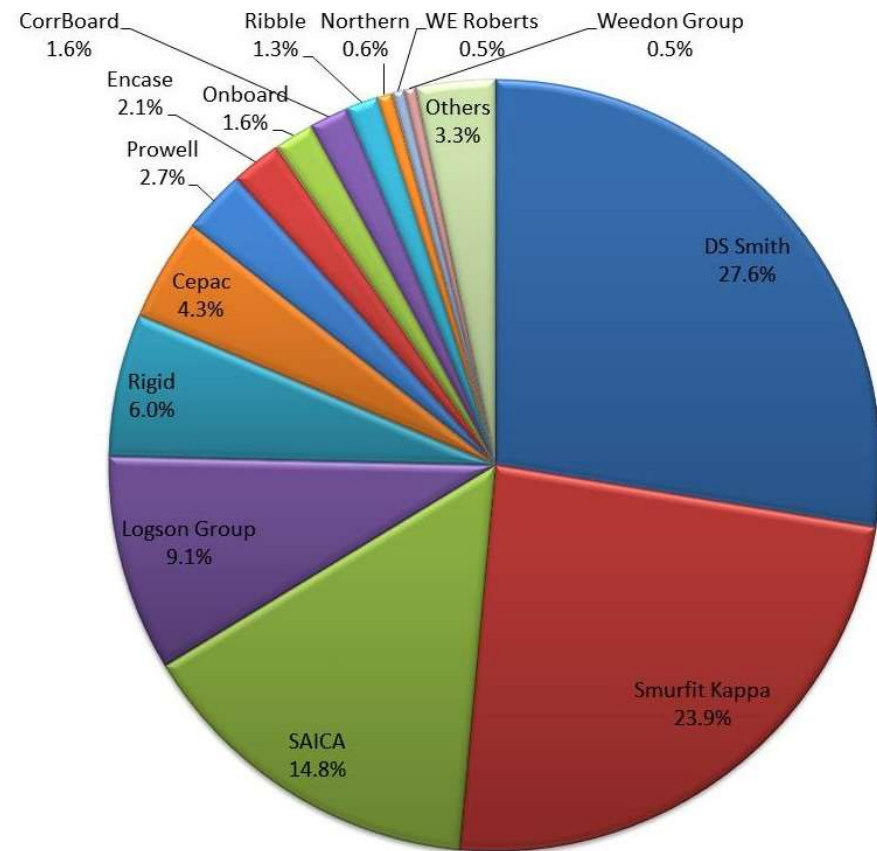


Monthly Prices - Test 3



# UK Box Market

- Consolidation will continue
- A number of sheet plants are looking to sell
- Large groups are looking to buy
- It's important to be supplied by a stable company who has security of supply during this difficult time of containerboard scarcity



# Summary

- There is not quite enough containerboard to go around
- Hence paper and board prices are rising significantly and we need to pay these to secure supply
- Labour costs (the second highest cost for box plants) will continue to rise
- We need to pass on these cost pressures to remain viable