

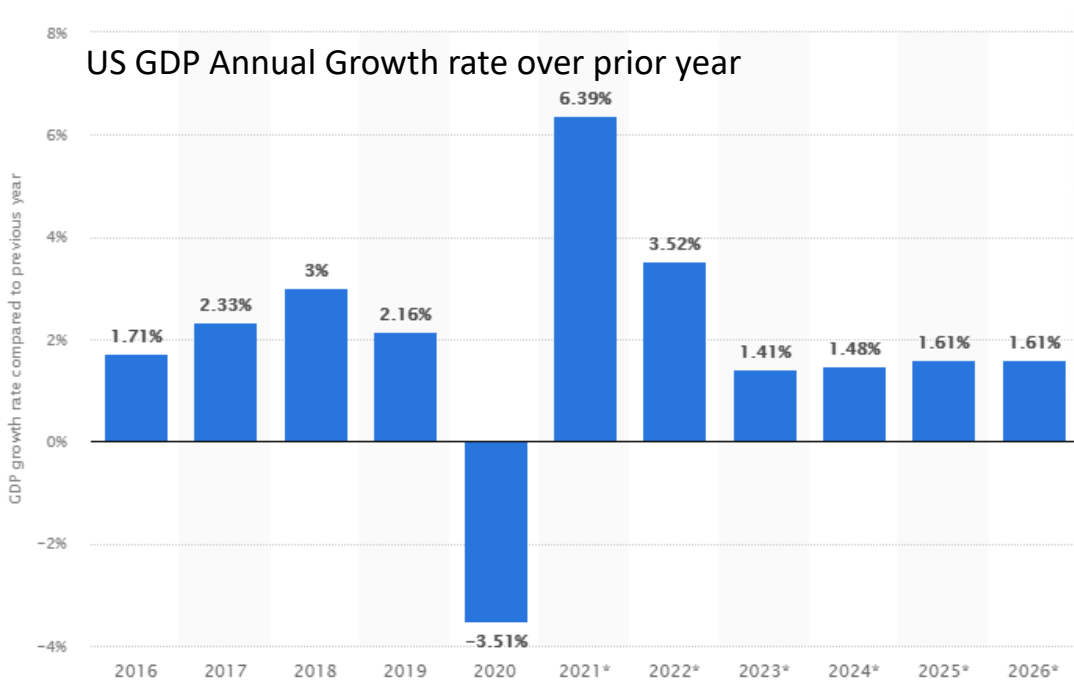
# Market Update

## Paper, Logistics and Inventory Update

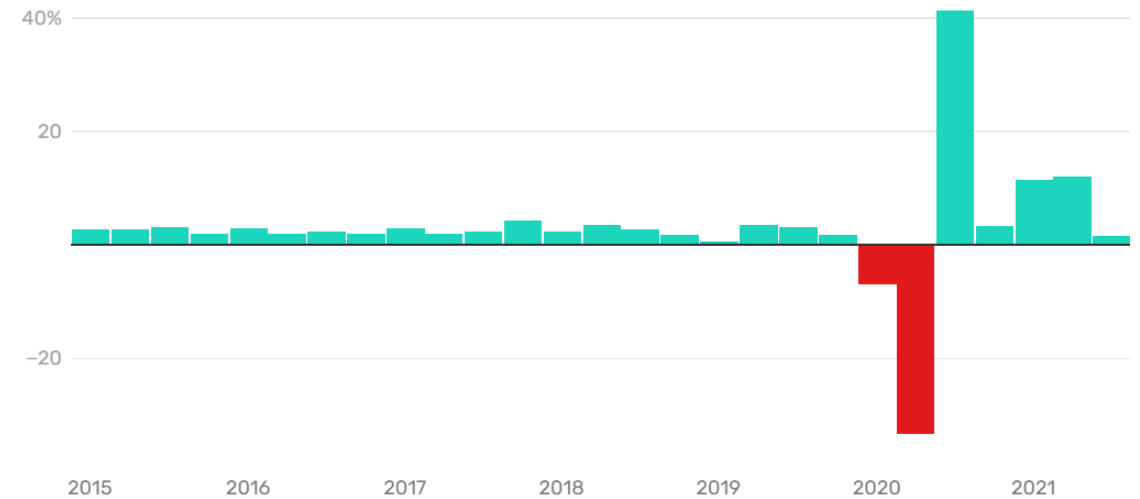
November 2021

# US Economy Insights

## GDP & Consumer Spending trends



U.S. Percentage Change in Real Personal Consumption Expenditures



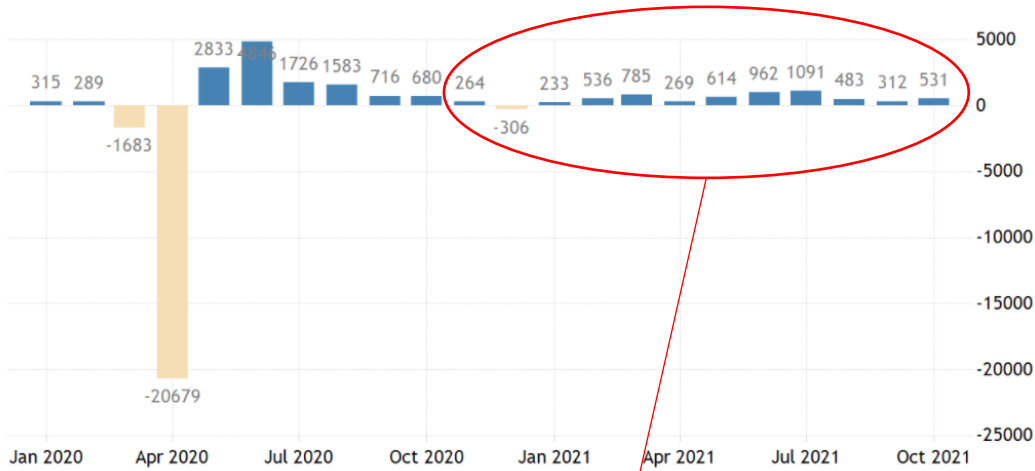
Source: Bureau of Economic Analysis

- The average annual growth rate of US GDP pre pandemic was between 2-3%
- The second half of 2019 and full year of 2020 were impacted by the pandemic induced global recession
- While still impacted by the COVID-19 pandemic, the US GDP is in recovery mode and is expected to finish the year at 6.39%
- The economist are predicting growth of at least 3.5% in 2022, then returning to a more modest rate of growth in 2023 and beyond
- Market & consumer confidence are high, backed by Government stimulus, increased vaccination rates and the reduced risk of another shutdown
- Two thirds of USGDP is driven by consumer spending, which has redounded strongly in 2021

# US Economy Insights

## Employment and Payroll trends

US Non-farm Payroll trend — new jobs added/lost per month



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS



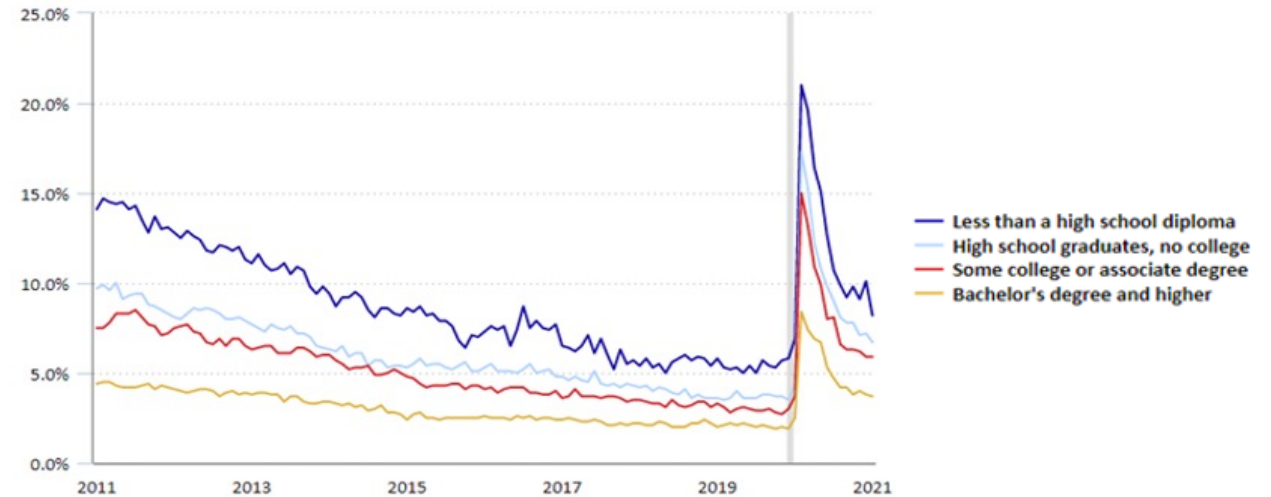
SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

- The pandemic had a massive, unprecedented impact on employment
- When the US economy shut down in April 2020, over 22 million jobs were lost
- 12.3 million jobs were added back between May and December 2020
- The recovery since has been very steady, with a few minor bumps along the way, caused by seasonality, the delta variant and other factors
- 531,000 new jobs added in October 2021, over 5.8 million YTD

### Other Key data points:

- Housing starts grew in August, the 114<sup>th</sup> consecutive month of YOY growth
- Oil, Natural Gas and other energy prices remain very high (close to the peak experienced in October 2018)

US Unemployment rate

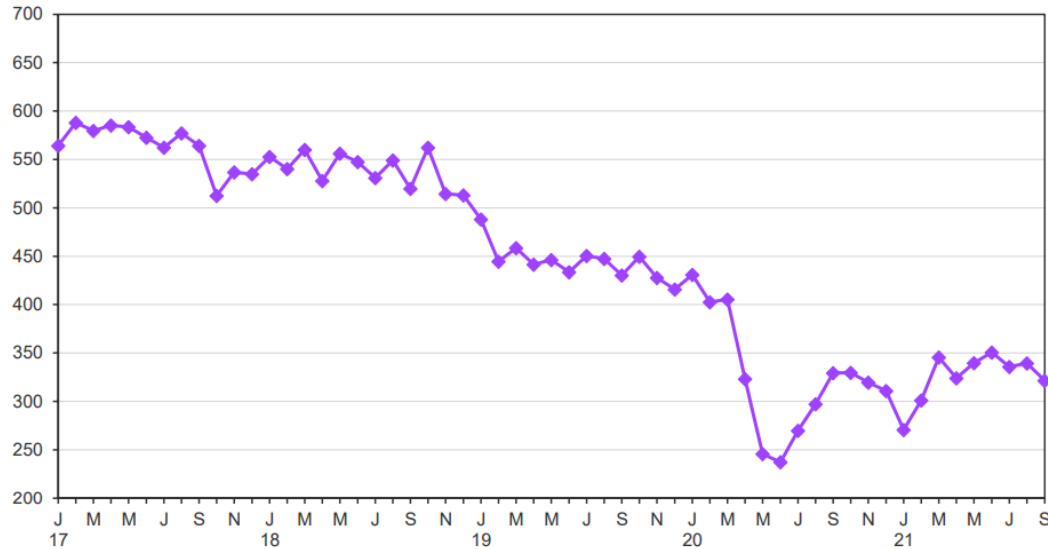


# Coated Paper market dynamics

# Coated Paper demand & mill inventory

North American coated paper demand by month

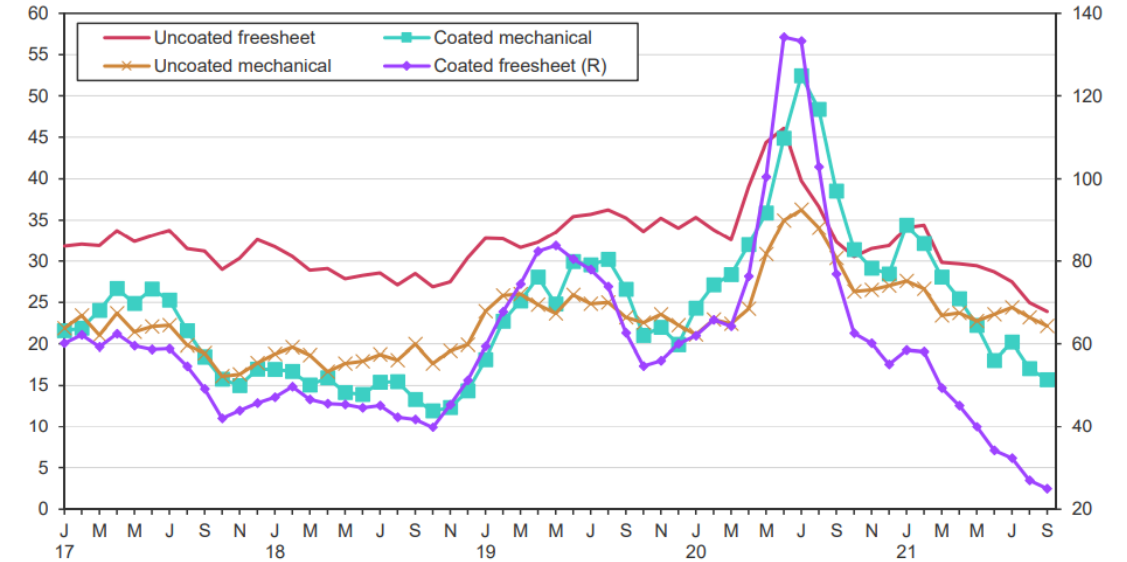
Thousand tons, seasonally adjusted



Data source: PPPC and AF&PA (shipments), US Commerce Dept. (trade) and Fastmarkets RISI seasonal adjustments.

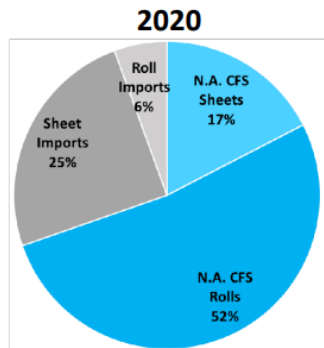
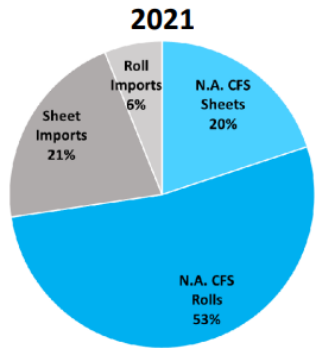
North American producer inventories of printing & writing papers

Days of supply



Data source: Calculated by Fastmarkets RISI from PPPC data.

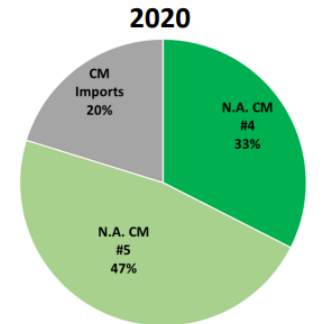
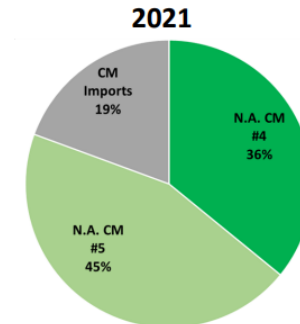
Coated Freesheet



September YTD Coated Demand

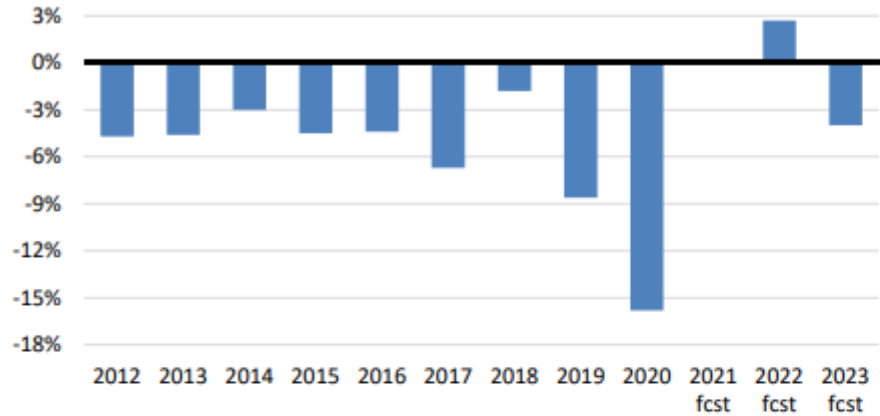
	CFS	CM	TTL	Change
2019	2,601.0	1,439.4	4,040.4	
2020	1,987.6	954.1	2,941.8	-27.2%
2021	2,037.8	890.9	2,928.8	-0.4%
	102.5%	93.4%		

Coated Groundwood

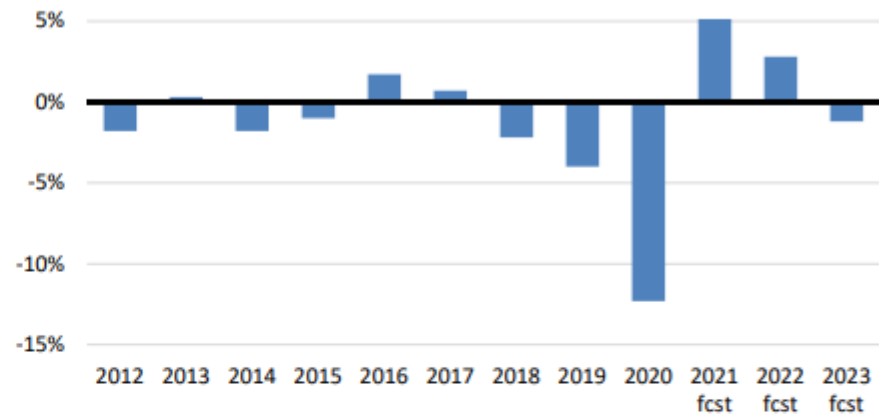


# Our Industry demand by Segment

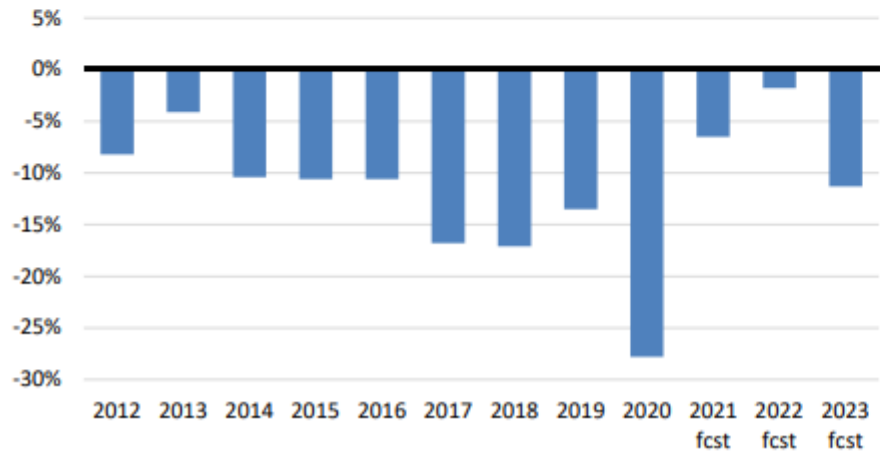
Catalog Circulation



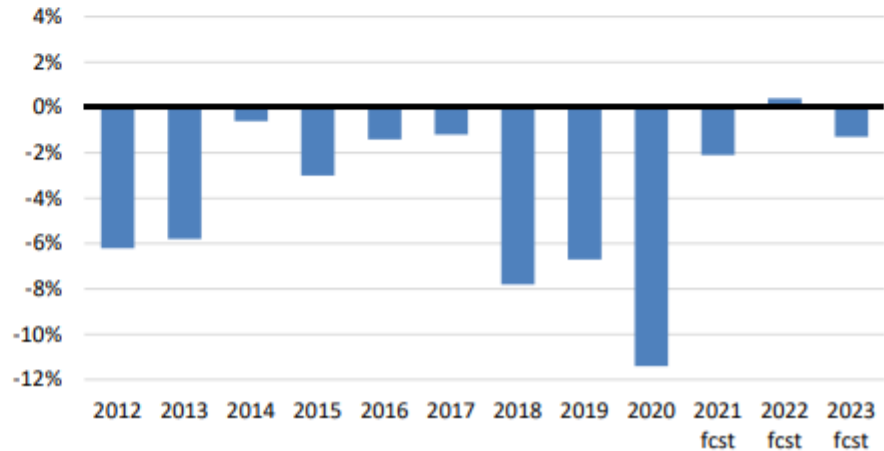
Commercial Print



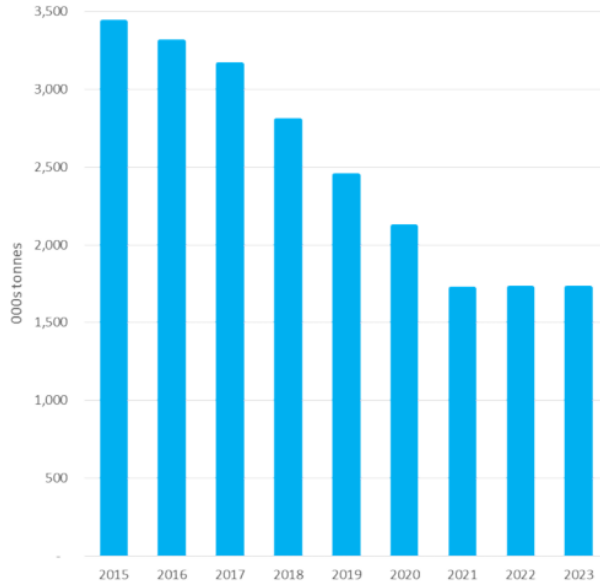
Magazine Ad Pages



Periodical, Book & Other Publishers



## Coated Freesheet Capacity, N.A.



Coated Freesheet

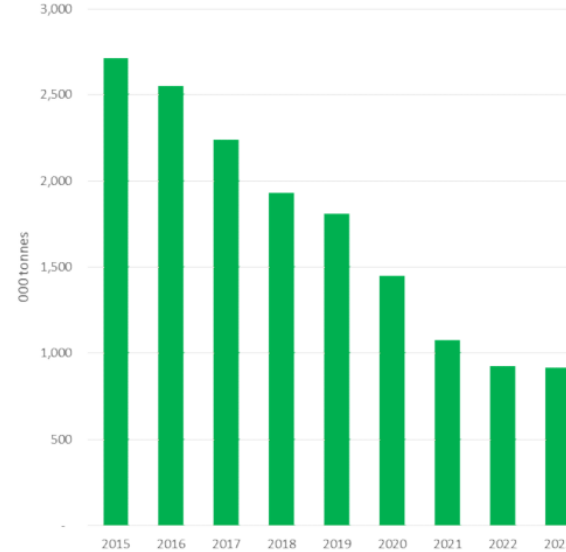
### 2020 Capacity shrunk -13%

- Sappi – ongoing conversion
- Verso, Luke – idling
- Willamette Falls Paper, West Linn (+) – gradual restart
- Verso, Wisconsin Rapids – idling
- Nine Dragons, Rumford – conversion of PM15
- Swings from Coated Mechanical (+)

### 2021 Capacity to shrink -19%

- Sappi – ongoing conversion
- Verso, Wisconsin Rapids – idling
- Nine Dragons, Rumford – conversion of PM15
- Midwest Paper, Combined Locks – full conversion of PM6
- Swings from Coated Mechanical (+)
- Swings to Specialty

## Coated Mechanical Capacity, N.A.



### 2020 Capacity shrunk -20%

- Kruger, Wayagamack – gradual conversion
- Nine Dragons, Biron – conversion of PM25
- New Indy, Catawba – full conversion
- Nine Dragons, Rumford – conversion of PM12 and PM15
- Catalyst – malware attack in Q1 2020
- Swings to Coated Woodfree

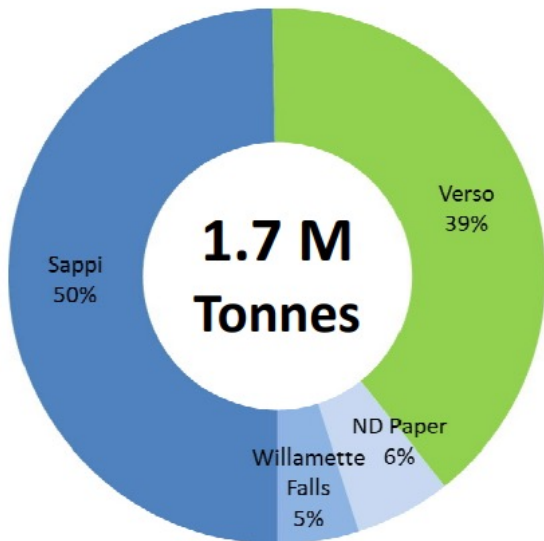
### 2021 Capacity to shrink -26%

- Kruger, Wayagamack – gradual conversion
- New Indy, Catawba – full conversion
- Nine Dragons, Rumford – conversion of PM15
- Swings to Packaging, Coated Woodfree and Specialty

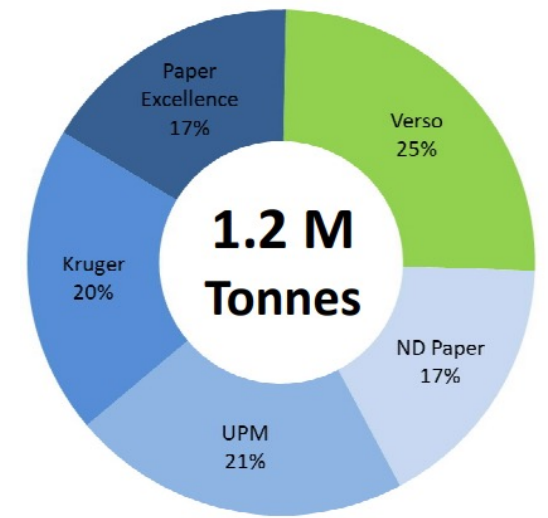
### Pactiv Evergreen Pine Bluff announced exit from CM manufacturing by the end of Q3 2021

- Reduced 2022-2023 capacity -150K tonnes

Coated Groundwood



- US Coated manufacturers were relentless in reducing capacity prior to the pandemic (over 3 million tons since 2015)
- With the sudden rebound in demand as we exit the pandemic induced recession, we find ourselves in a fully allocated market where demand outstrips supply
- Imports would normally fill the void however the combined impact of port congestion, lack of available containers and reduced sailings have limited the ability for imports to close the gap as they would have in the past



# Some of our conclusions on the Coated Paper market

## SUPPLY

- Domestic mills operating rates are at record high levels. Coated freesheet operating rates are above 100% and projected to remain very high through the first half of 2022
- Offshore supplies will remain tight also due to port congestion and ocean freight limitations
- Mill & Merchant inventory levels have plummeted and will take time to rebuild, particularly with steady demand
- We therefore expect supply of coated paper to remain extremely tight for the first half of 2022
- Kelly Spicers will continue to rely upon our unique domestic & global supply relationships to maintain market share
- We will continue to invest in our core coated sheetfed brands of Pacesetter, TopKote and ChorusArt
- These 3 mill partners have been very supportive to provide an advantage to our company
- We will continue to utilize our sheeting capabilities to supplement these brands with commodity private label coated paper

## PRICING

- Coated paper prices (domestic and Asian suppliers) increased again by 6-8% in November 2021
- European mills are passing on additional increases due to a surge in energy costs
- With a tight supply and ongoing strong demand, our prediction is that we will see another 5-7% price increase in the 1<sup>st</sup> half of 2022



# Transportation Update

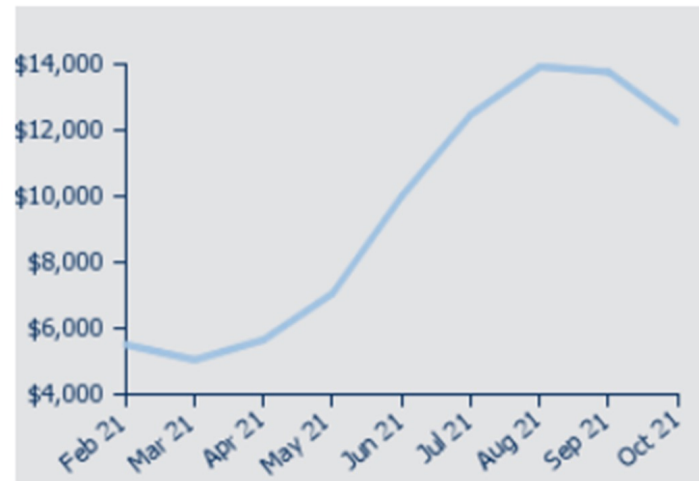
# Rising Costs of Ocean Freight from Asia to West Coast

## Transpacific

After registering double-digit growth for the past many months, spot rates on Transpacific Eastbound remained stable at \$13,735 per 40ft box in September. Despite the continuation of the heavily undersupplied container market, two of the world's top container lines (CMA CGM and Hapag-Lloyd) have announced not to levy any further rate rises for the next few months. Hence, we expect rates to either remain stable or increase slightly in October.

During 2Q21, freight rates on this route reached record-breaking levels on the back of colossal volumes and skipped sailings. This spike would have continued until next year had carriers not pledged to freeze freight rates in early September. While this news would have relieved shippers to an extent, rates are still quite high, and slots remain hard to get despite the higher freight rates.

Transpacific EB Rate Index (US\$/40ft)



Transpacific WB Rate Index (US\$/40ft)



### Trends in Spot Container Rates

Major Trade Route	Recent Trend	Short-term Forecast
Transpacific Eastbound	↓	→
Transpacific Westbound	↓	→

# Rising Costs of Ocean Freight from Europe to West Coast

## Trans Atlantic

Transatlantic Westbound trade finally joined the party in early 2Q21 despite remaining stable until 1Q21 when spot rates on the other major East-West routes surged. It was the last trade to join the party, and we believe it will be the last to leave. Interestingly, spot rates on all major East-West trade lanes either remained stable or decreased slightly in September, whereas Transatlantic Westbound was the only trade to register double-digit growth.

Transatlantic Westbound Index (US\$/40ft)



Transatlantic Eastbound Index (US\$/40ft)



### Trends in Spot Container Rates

Major Trade Route	Recent Trend	Short-term Forecast
Transatlantic Westbound	↑	→
Transatlantic Eastbound	↑	→

# Local Trucking Employment Rate

## US trucking employment drops in September

The JOC For-Hire Trucking Employment Index compares current for-hire truck transportation employment against the 2006 fourth quarter average, based on non-adjusted US Bureau of Labor Statistics data.



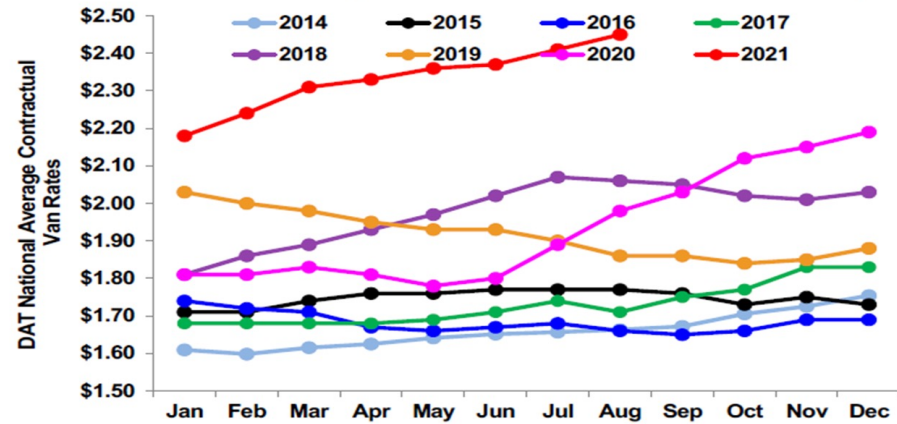
Source: The Journal of Commerce, U.S. Bureau of Labor Statistics data

© 2021 IHS Markit

- Following the massive drop in employment in Feb-Apr 2020, the employment rate has steadily improved
- Employment rates however dropped slightly in September causing concerns that the available pool has been drained

# Local Trucking Cost continue to rise

**Exhibit 32: National Average Contract Van Rates ex. Fuel Surcharge**



Source: DAT Solutions, Morgan Stanley Research

**National Van Rates**



**National Average Rates**



# Port Congestion...the facts

## Overview: How did we get here?

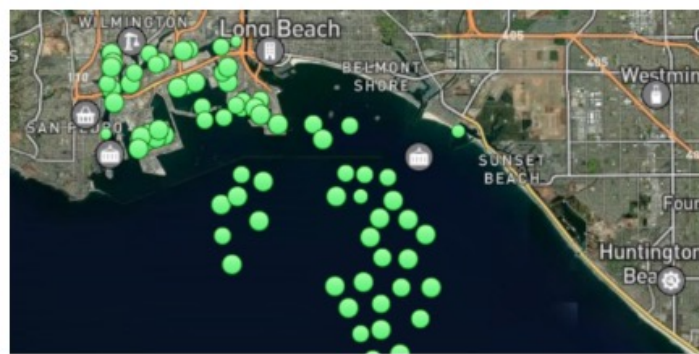
The pandemic has shown how interconnected global supply chains are.

The historic problems are not unique to any industry or type of business. The situation is very difficult for everyone.

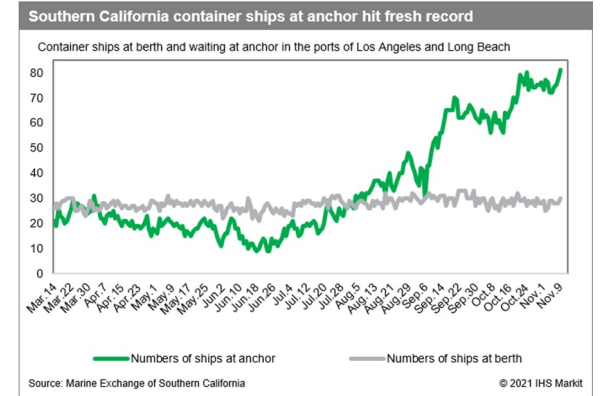
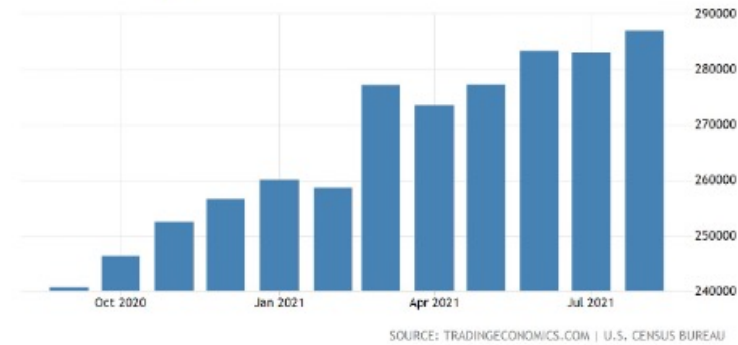
Vessels at berth – Shanghai



Vessels at berth – LA/ Long Beach



US Import Growth – Last 12 months



# Key factors contributing to the ocean freight & port congestion issues

- Consumer Demand
  - Rebounded commencing June 2020 and the supply chain was not ready for the surge of over 30%
  - Spending shifted from travel and services to consumer goods. Massive growth in online trading and home improvement
- Ocean carrier Consolidation
  - Five years of losses and consolidation in the industry prior to the pandemic
  - Now **THREE** shipping alliances control 95% of global capacity
  - Eight companies represent 90%
- Not enough containers are available
  - Imbalance due to congestion has extended the time for empty containers to be returned to common ports of origin
  - Dwell time has increased from 6.5 days (on average) pre-pandemic to 16.5 days now
  - System was already tight. New containers are being produced however the recovery of the balance will be slow
- Global port congestion
  - Ships waiting a month or more to enter key ports in the USA and other larger global ports of entry. Time spent waiting at anchor for a berth has blown out.
  - In LA/Long Beach the waiting time to pick up containers has increased from 8 hours to 33 hours
  - Container yards are at capacity. Warehouse space is difficult to find also
- COVID-19 continues
  - In the USA, it could be argued that we have the pandemic under control, however...
  - Lockdowns continue to persist in China, Vietnam, Malaysia and other Asian countries
- Chassis Shortage at major ports
- Low unemployment makes hiring more difficult for everyone in the supply chain

# What will the path back to normal entail ?

- The economists anticipate a shift in consumer spending away from goods to travel and services
- New ocean vessel orders in the first half of 2021 were greater than all of 2019 and 2020 combined.
  - These should start to come onstream in 2<sup>nd</sup> half of 2022
- 2021 New Container production could reach a record level of 4.5 million TEU
  - More than double the volumes produced in 2019 and 2020
  - 30% above the previous record level set in 2018
- An increase in the availability of vaccinations in Southeast Asia will reduce shutdowns

## New Disruptors

- ILWU Union contract negotiations in 1H 2022, followed by the ILA in 2023 (Big factors wages and automation)
- Emission controls on vessels will limit capacity (vessels need to be in dry dock to be retrofit)
- Covid variant uncertainty



# Thank You