

Paper perspectives

COVID-19 and its impact on the printing and writing paper industry

The use of electronic media as a means of communication has contributed to the long-term secular decline in demand for printing and writing (P&W) paper products. The onset of COVID-19 is expected to accelerate the trend, causing a permanent reduction in demand, putting additional pressure on near-term P&W paper product selling prices and forcing industry capacity closures / conversions to other grades and restructurings. We are already seeing developments in industry structure that will help stabilize the significant supply / demand imbalance that has been created.



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In May, P&W paper demand was down approximately 40% year-over-year versus 20% year-to-date and 10% in the first quarter.

Chart 1: P&W PAPER DEMAND - MAY 2020 VS MAY 2019

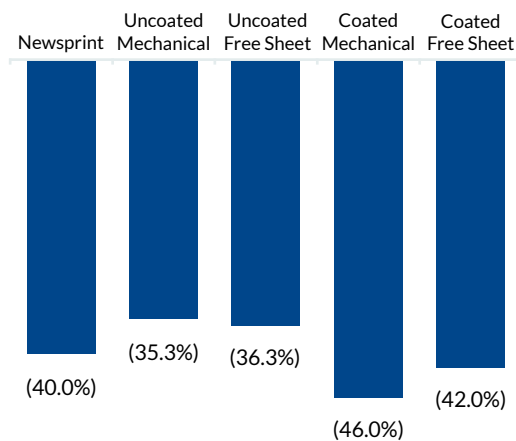
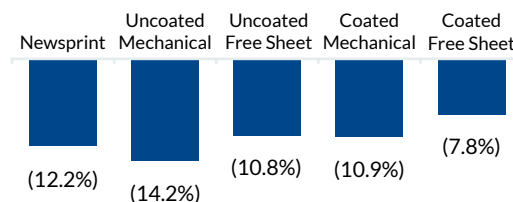


Chart 2: P&W PAPER DEMAND - 1Q 2020 VS 1Q 2019



Source: RISI.

The COVID-19-related loss of demand should result in valuation declines of P&W companies to reflect the reduced levels of profitability going forward.

North American P&W Paper Prices, 2014 – April 2020

Chart 3: NEWSPRINT

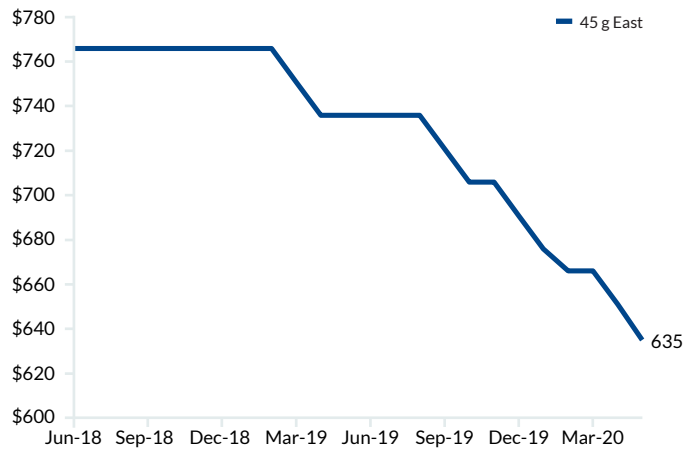


Chart 4: UNCOATED MECHANICAL

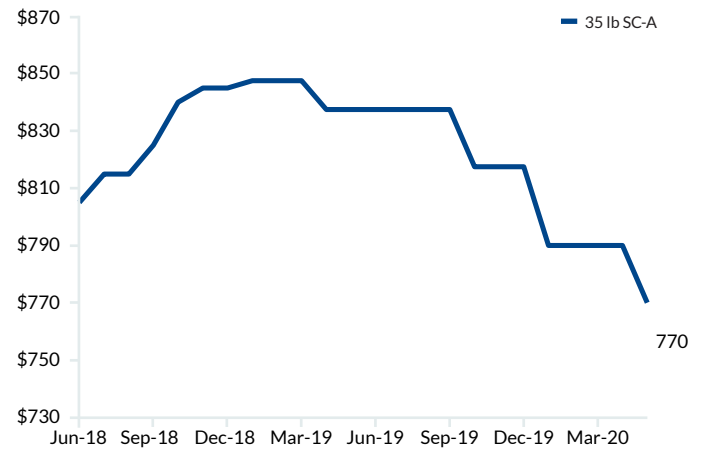


Chart 5: COATED PAPERS

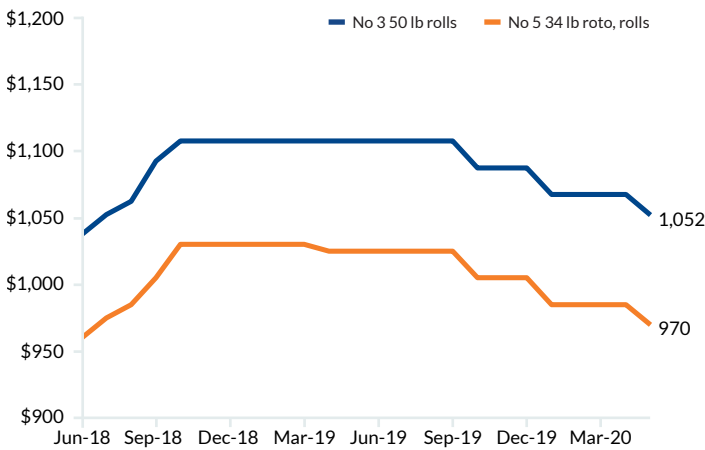
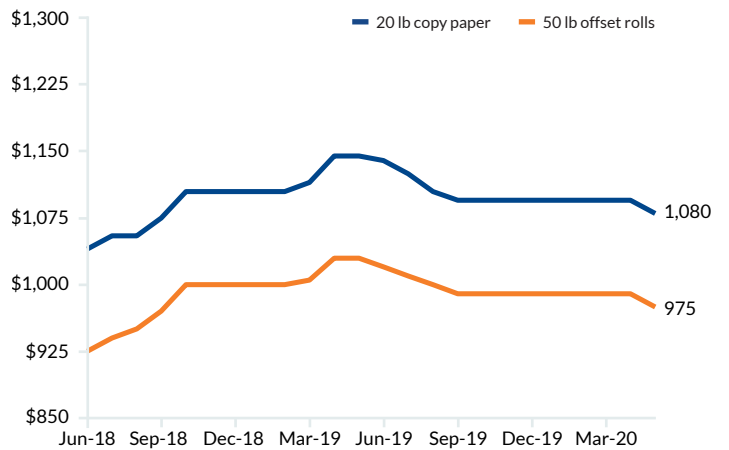







Chart 6: UNCOATED FREE SHEET



Source: RISI.

Though this loss of demand is permanent, developments have been identified that will stabilize the industry supply / demand balance.

Key Trends		Impact & Opportunities
 Capacity closures	→	Costs associated with such closures
 Capacity conversions to other grades, typically packaging such as containerboard / kraft	→	Significant capital expenditure requirements Lack of presence in such new product categories; this, coupled with new capacity additions, could disrupt the supply / demand balance in the new product categories
 Consolidation among the P&W producers to better manage capacity	→	“Doubling-down” in declining end markets?
 Diversification to other product categories with positive demand trends	→	Availability and scale of potential acquisitions More expensive as valuations for such assets will be higher than acquiror’s valuations
 Divestitures and restructurings	→	Distressed situations

Mesirow can assist companies in the P&W space in analyzing and evaluating their strategic options and alternatives.

Dedicated advisor to the paper, plastics and packaging sectors

Mesirow Investment Banking is consistently focused on elevating the experience for our clients. With extensive sector-specific expertise and deep long-standing relationships, our dedicated paper, plastics and packaging team has a proven track record of completing highly tailored and successful transactions. Our highest priority is helping individuals and organizations achieve their financial and strategic goals.

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