Time and Date of Briefing: 15:00 – 16:00 on May 14, 2024

Presenter: Kazuhiko Kamada, Director of the Board and Senior Executive Officer

Question Responders: Masatoshi Kaku, Representative Director & Chairman of the Board
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Kazuhiko Kamada, Director of the Board and Senior Executive Officer

1. What is the breakdown of domestic and overseas operating profit for the fiscal year ending March 2025? What is your view of the economic conditions overall?

Domestic operating profit will decrease by approximately 10.0 billion yen. The breakdown of difference is as follows: selling price difference including price increases: approximately +8.0 billion yen, sales volume difference: approximately +3.0 billion yen, raw material & fuel price difference and cost difference: approximately (11.0 billion yen) (negative impact on the operating profit), and other difference: approximately (10.0 billion yen) (negative impact on the operating profit). The other difference includes approximately 5.0 billion yen in costs related to the pilot plant for wood-derived ethanol and sugar solution currently under construction at Oji Paper Yonago Mill. Under Japanese accounting standards, the pilot plant is expensed as a one-time write-off, all of which is incurred in the current fiscal year. Approximately 2.5 billion yen is attributed to advertising expenses in addition to research and development expenses for innovation. The remaining approximately 2.5 billion yen is due to a deterioration of the fuel mix due to a breakdown of a boiler at Oji Paper Tomioka Mill.
The costs related to the pilot plant at Yonago Mill, other research and development expenses and advertising expenses are treated as expenses incurred by the entire Oji Group, which are, therefore, allocated to all segments as expenses of Oji Holdings. Despite the temporary negative factors, and the ordinary business alone will be at the same level in the fiscal year ending March 2025 as in the fiscal year ended March 2024.

The overseas business will achieve profit growth of approximately 33.0 billion yen. The breakdown of difference is as follows: selling price difference due to a recovery of pulp prices: approximately +15.0 billion yen, sales volume difference due to the recovery of the packaging business in Southeast Asia, the thermal paper business in Germany, and pulp facilities: approximately +9.0 billion yen, raw material & fuel price difference and cost difference: approximately 2.0 billion yen, and other difference and foreign exchange gains: approximately 7.0 billion yen.
Because Pan Pac Forest Products was hit by a cyclone in February 2023 and it will not resume the full operation of its facilities by the second half of the fiscal year ending March

2025, the forecasts in the current fiscal year will be a deficit again and the year-on-year improvement will be limited to several hundred million yen.
The cause of the continuous, but decreasing, deficit in the overseas business of Household and Industrial Materials segment is an increase in prices in Oceania as a result of COVID-19. While we are raising selling prices to address the increased expenses, the prices of products such as products under long-term contracts could not be raised. We are now considering drastic solutions.

Regarding the economic conditions overall, goods distribution slowed down in 2023 due to an increase in commodity prices and a decrease in consumer confidence. Demand for paper is barely growing despite an increase in foreign tourists, possibly due to an increase in leisure consumption. Product distribution is slowing down due in part to the impact of the Chinese economy. There is ongoing stagnation in Southeast Asia as a whole, too, as exports to China are suspended. Meanwhile, Chinese investment in Vietnam is growing, which is a sign of a recovery. In Europe, inventory adjustments has made some progress and distribution is improving. While the Oji Group operates only a few businesses in the North American market, some companies are performing well.

2. What is Walki's impact on the consolidated results?

Because Walki’s fiscal year ends in December, the results for the nine months from the second quarter will be included in the consolidated results.
Walki's annual non-consolidated results ranges between 100.0 billion yen and 150.0 billion yen in net sales and between 7.0 billion yen and 10.0 billion yen in operating profit although they depend on exchange rate. The results for the fiscal year ending March 2025 will be for nine months, but it doesn't mean that three fourths of the operating profit mentioned above is posted. There will be a decrease of 3.0 billion yen due to the impact of inventory revaluation at the time of acquisition, and amortization of goodwill. As a result, Walki's impact will be negligible.
The results of Walki will be included in the “Others” segment.

3. While investment in and expenses for new businesses for future growth are increasing, the profit margin of the existing domestic businesses is not growing. When will the Wood Bio-businesses contribute to sales and how much will they contribute?

We recognize the need to increase the profit margin of the packaging business. The printing paper business must consider suspending its operation of facilities due to the shrinkage of the market. At the same time, the pulp facilities can be used for Wood Bio-businesses including businesses such as sugar solution and wood-derived ethanol, and we plan to develop this business using subsidies. We are currently building a pilot plant for it, and considering the process for developing mass-production, we expect that the business will contribute to sales in around 2030 to 2035. We are still calculating a specific sales target, but we expect it to be around 300.0 billion yen.
The Oji Group is developing businesses in line with the current social trends such as the growth of demand for environmentally friendly products and the reduction of the use of plastic. By developing businesses whose source of value creation is forest resources, we hope to provide more sustainable solutions and identify new business opportunities.

4. What progress has been made in raising the prices of corrugated containers, considering that the status of the recovered paper market could be the basis for the price increase?

Regarding the price increase, we announced on March 22 that we would respond to each customer individually, but since only a slightly more than a month has passed since then, it is difficult to state a specific comment on the progress. Meanwhile, it is difficult to maintain the businesses without raising selling prices amid the continuous increase in personnel, distribution and other expenses. Therefore, it is essential that we increase selling prices, and the businesses in the subsequent process must follow suit. Maintaining this cycle is important for Japan’s growth. The price increase effect is expected to be approximately +3.0 billion yen for the full year of fiscal 2024.

In the recovered paper market, demand for Japanese recovered paper is temporarily growing due to restrictions on transportation from Europe caused by geopolitical risks. This condition may continue if the conflict in the Israeli region continues. If the situation is settled, the Japanese recovered paper market is expected to become stable. Currently, we are factoring the increase of recovered paper price into our plan, and the cost is a source of pressure.

5. What is your view of the pulp market given that Chinese business confidence is not strong.

We have been able to raise the pulp prices in the last several months even though the Chinese market has yet to recover. The Oji Group is operating businesses not only in China, but also in Europe and North America, where business confidence is improving and, therefore, we are not very concerned. As a whole, we are making plans with careful safety considerations.

6. Based on your policy of aiming for a payout ratio of 30% in your shareholder return, you plan to increase dividends 8 yen in FY2024. Will this be affected by the changes in the profit level? What is your policy regarding the acquisition of treasury stock?

We have set the payout ratio of 30% in our shareholder return policy and decided that the dividend for FY2024 will be 24 yen. As you indicated in your question, profit may change, not only due to the fluctuation of pulp prices, but also due to other factors. We hope to maintain dividends as much as possible even if profit decreases, but may consider a change depending on the degree of decrease in profit.

If cash comes in by selling strategic shareholding or by other means, we will consider acquiring treasury stock.