WHAT IF packaging could make a difference?

7th of January 2020  SEB Nordic Seminar 2020  Lennart Holm CEO, Ivar Vatne CFO
BillerudKorsnäs - A pure play packaging innovator

Net sales

- Europe 68%
- Asia 21%
- Africa 4%
- America 4%
- Middle East 2%
- Other 1%

24.5 SEKbn

EBITDA

- 12%
- 3.0 SEKbn

Margin

95% packaging material in product portfolio with a growing share of packaging solutions and systems

Production units

- 8

Employees

- 4,500

Industry leader

Division

- Board 54%
- LPB
- Cartonboard
- Liner
- Fluting

Division

- Paper 36%
- Other 6%

Division

Solutions 4%

Kraft paper
Sack paper

12 months rolling, Q418-Q319
BillerudKorsnäs - Leading position in selected high-quality segments

Targeting customers and applications requiring light, strong and pure materials

Kraft paper

Sack paper

Liquid packaging board

Cartonboard

Fluting

¹ Sealed packaging, ² Coated primary fibre based liner, ³ Primary fibre based NSSC
Clear focus on low-cyclical consumer segment

75% of sales towards consumer segment with stable long-term demand growth

- Food & Beverages 54%
- Medical & Hygiene 6%
- Industrial 25%
- Consumer & Luxury 15%
Consistent net sales growth since the merger

Net sales, SEK bn

- 2010: 8.8
- 2011: 9.3
- 2012: 10.4
- 2013: 19.7
- 2014: 20.9
- 2015: 21.8
- 2016: 21.7
- 2017: 22.3
- 2018: 23.7
- Q4’18-Q3’19: 24.5

~4% CAGR
Unsatisfactory profitability in the past 2 years

Main drivers:
- Fibre cost inflation due to wood shortage (~2.5% pts)
- KM7 ramp-up (~2.5% pts)
- Weaker market, mainly for Sack Paper

Main drivers:
- Net sales, SEK bn
- EBITDA % (adj)

Target >17%
Going forward - Value creation in a world full of uncertainty

Significant uncertainty after a long period of global economic expansion
- Political / Economical / Environmental

- Rapid change creates both opportunities and threats
- Paper & Board is essentially an asset and margin management business
- Global megatrends create opportunities provided we act wisely and decisively
Megatrends driving growth for renewable packaging

Demographics and urbanisation

Sustainability awareness

Digitalisation

Globalisation
Clear strategy to capture the potential in our business
Expand sales and margins by challenging conventional packaging

- **KEY**: New capacity from KM7 enables growth

- **Sustainability** a driver of growth and profitability
  - Renewable resource / recyclable / biodegradable / energy efficient

- Focus on growth segments/niches with high entry barriers
  - LPB, Form & Fill, Flexible packaging, FibreForm, Flow wrap, Paper bottle, etc.

- Active partnerships with customers and key stakeholders throughout the value chain to leverage opportunities
  - Solutions / active partnerships with brand owners

- **Product development / accelerated innovation**
  - Biobarriers
  - Lightweighting
  - Conceptualization (E-ComBag, Paper bottle, Flow wrap, etc.)

² Estimated annual growth all packaging materials 2017-2022, Smithers Pira
Drive performance

Maximizing utilization of existing asset base

Key actions:

• Further enhance a sustainable and competitive wood supply

• Utilize the full potential of existing production capacity (KM 7 + Safe and Stable Operations)

• Reduce fixed costs by developing/implementing a more efficient way of working

• Further develop/implement critical KPI’s and efficient tools for measurement and follow-up
Entering a new financial phase

Solid balance sheet in the wake of Bergvik divestment

Lower future CAPEX expected

Improved EBITDA % helped by 3 initiatives
  * KM7 // Cost and efficiency // Production Excellence
1. Solid balance sheet in the wake of a successful Bergvik divestment

- Net debt EBITDA ratio well below target
- Q3’19: Net debt SEK 5.5 billion SEK

**Net debt / EBITDA ratio**

- Q3’18: 2.4
- Q4’18: 2.7
- Q1’19: 2.9
- Q2’19: 3.9
- Q3’19: 1.8

Target: <2.5x

*Based on past 12 months EBITDA (Q418-Q319). Adjusted for items affecting comparability.*
2. Main production footprint investments completed - returning to a more normalized CAPEX level

- Production expansion phase completed / focus on realizing full capacity potential

**UPM acquisition:**
Production capacity: ~300 ktonnes

**Production capacity increases:**
- Frövi/Rockhammar: ~95 ktonnes
- Skärblacka: ~20 ktonnes
- Gruvön: ~40 ktonnes
- Gävle: ~25 ktonnes

**PM10 Skärblacka:**
Production capacity: ~90 ktonnes
Products: MG-papers

**KM7 Gruvön:**
Production capacity: ~550,000 tonnes
Products: Liquid packaging board, cartonboard and liner
3a. Hiked profitability from our biggest strategic investments

1 200 SEK m
positive EBITDA* effect when fully ramped up

KM7 start-up
Liners
Start-up of coating machine
First certification material
EBITDA positive
Fully ramped up
~550 ktonnes

KM7 at Gruvön mill is a strategic investment to capture stable and profitable liquid board business

Flexibility to produce premium products to meet change in product demand

*KM7 & PM10 accumulated
3b. Large untapped potential from improved asset output

Safe and stable production is the key priority

4%-points OEE improvement by 2022

Overall Equipment Efficiency (OEE)

Time \times Speed \times Material = OEE

1%-point OEE = ~100 SEK m EBITDA
3c. SEK 600 million of extra EBITDA contribution by 2022

- FTE reduction
  - Up to 300 positions announced (Sep’19)
  - Negotiations with unions in final stages
  - Impact starting as of Q1’20

- Purchasing & Development
  - Centralizing procurement with few preferred suppliers
  - Replacing raw material / ingredients with alternatives

- End-2-end Supply Chain
  - Warehouse
  - Logistics
  - Operational savings
  - G2M model

- All streams contributing to our cost- and efficiency program
- 250 SEK m incremental EBITDA 2020 vs 2019
- 600 SEK m incremental EBITDA Q4’2021 run-rate vs 2019
- Roughly 1/3 split contribution per stream
Summary

- Solid long-term demand for renewable packaging solutions
- Short-term demand weaker in some segments
- Strong financial position and clear strategic priorities for the next five years
- Exciting product portfolio driven by demands for sustainable and efficient solutions
- Untapped potential from increased operational efficiency and cost savings
- Hiked profitability from strategic investments
WHAT IF oceans were full of plankton? Not plastics.

WHAT IF packaging could push new boundaries?
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