

Americas First?!

Industry survey confirms positive business environment with continued demand growth ♦ Key priorities pricing and talent management ♦ US considered most attractive business location for forest based products in North America ♦ North America ranked as most competitive business location globally

StepChange Consulting conducted a survey amongst industry managers, stakeholders and participants of the 32nd Annual RISI North American Forest Products Conference. Results were compared to surveys from prior years providing an analysis of long term trends.

The outcome of the survey provides an indication about the perception of current economic and market developments, and provides insight about current company priorities. Additionally, the surveys provide a viewpoint about the competitiveness of North America as a location for the forest-based industries.

Key highlights of the survey results

- Slight upswing of expectations: 60% of respondents believe that their area of the industry is on an upward trend. This is more optimistic than in 2016 (56%) but well below prior years optimism which was highest in 2013. The number of respondents expecting a downward trend dropped by 8% to 22%
- Demand is increasing and so are prices: 69% of respondents see customer demand increasing during the coming year and 61% believe selling prices will go up in parallel
- Increasing costs continue to be the main concern: 76% of respondents expect higher raw material costs, 73% expect higher transportation costs – nevertheless cost reduction dropped from 2nd (57%) to 5th (43%) place in company priority.
- Industry consolidation through M&A as ongoing market trend with slight decreases to 55%. As a company priority, M&A is a key priority for 32% of respondents (up 11pp).
- Company priorities are centered around pricing & margin management, talent acquisition and development, as well as product development & innovation

- Respondents continue to consider domestic demand and export opportunities as two of the most important factors impacting growth in the industry in North America
- Availability of labor, labor cost and productivity and raw material prices are considered the major barriers to growth. For labor costs, labor laws and productivity, Mexico is considered attractive than the US or Canada. Despite ambivalent views on energy prices being a barrier to growth, they were considered the most favorable in the US compared to Canada and Mexico
- Respondents consider the Americas to be the most competitive regions in the forest-based industry globally, with North America in first, and South America in second place, replacing South-East Asia (incl. China) considered the most competitive region in 2016
- 84% of participants believe that North America is more attractive or as attractive as an industry location as the rest of the world

Survey demographics

Respondent demographics represent a wide spectrum of the industry including forestry & wood products, paper & paperboard manufacturing, merchants & distributors, industry suppliers, financial services and management consulting. 27% of respondents come from forestry & wood products, 25% from services as well as 19% from paper & paperboard manufacturing and converting, among other respondents. Where appropriate, responses from categories with a direct industry affiliation were evaluated separately.

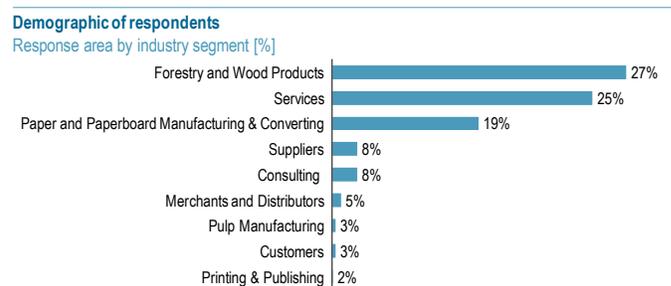


Figure 1 – Demographic of respondents

Optimism increasing again

More than two thirds of all respondents have a positive outlook and believe their sector is in an upward trend (60%), and 9% of participants considered their business area to be peaking. 22% of respondents have a rather negative outlook and believe that their segment of the industry is in a trough (9%) or in a downward trend (22%).

Reflecting a significantly more optimistic perspective compared to 2016, the percentage of respondents who see the industry in a downward trend has declined by almost one third. The percentage of respondents who see the economy in a trough has remained almost at the same level.

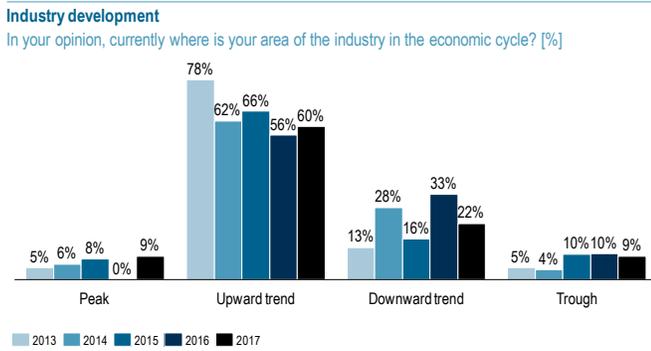


Figure 2 – Pulp and paper economic cycle position

The majority of respondents (88%) from the forest and wood sector see their area moving upward and only 8% believe the industry has reached its peak. The paper and paperboard manufacturers have more ambivalent views: 43% believe that the industry is currently in an upwards trend. However, opposing to that stand 36% of respondents consider their industry to be in a downward trend, while 21% see a trough in this segment.

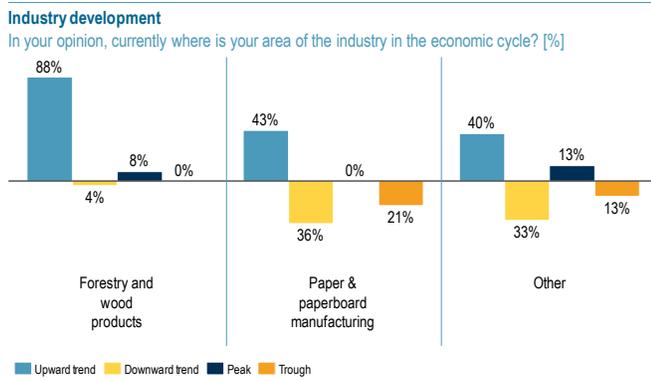


Figure 3 – Pulp and paper economic cycle position

Demand and price are up - and so are costs

Similar to prior years, participants see continued increase in costs. 76% of participants expect raw material costs to increase (vs. 61% in 2016) while only 6% see decreasing costs. 73% of respondents state that transport costs are increasing, while 4% believe they are decreasing. Regarding availability of financing 24% see an upward trend with only 14% seeing a decreasing availability of financing.

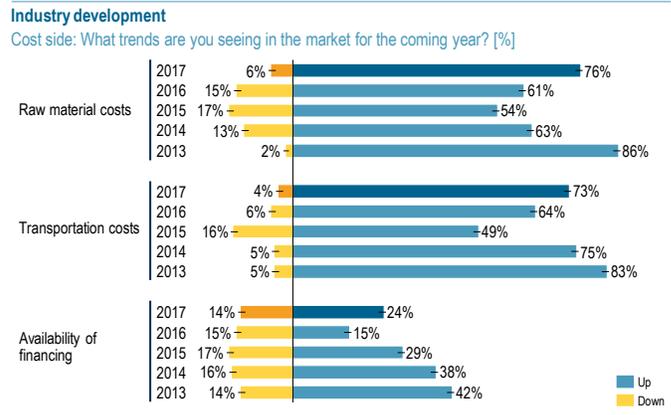


Figure 4 – Historical comparison of cost related trends

A most notable outcome of this study is the overwhelming view on demand. 69% of respondents see an increase in demand with only 16% of participants expecting decreasing demand compared to 34% in 2016.

As in previous years, most participants see increasing customer service levels. 65% expect customer service levels to remain a priority. Over the past five years, almost no participants have indicated a decreasing level of customer service.

Reflecting a more optimistic view on the sales side than in the last three years, 61% of participants also see higher selling prices, with only 16% expecting lower prices.

M&A activity and industry consolidation is expected to continue by 55% of respondents.

This year 14% of respondents see an increasing level of customer complaints, which is more than double compared to last year while only 6% observe a decrease in customer complaints.

After a peak in 2015, late payment & bad debt is expected to increase by 20% of participants with a declining share of participants who see a decrease compared to last year.

Industry development

Sales side: What trends are you seeing in the market for the coming year? [%]

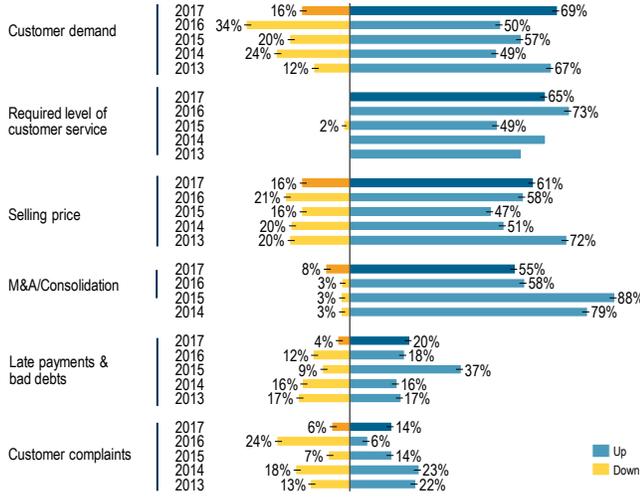


Figure 5 – Historical development of sales related trends

Company priorities

Answers from other industry sectors (non-forest products or non-pulp and paper related respondents from consulting, technical and financial services) were excluded from the evaluation of “current company priorities” to get an industry-specific view.

The top three priority areas in 2017 are pricing & margin management (54% compared to 50% in 2016), talent acquisition and development (46% compared to 36% in 2016) and product development and innovation (46% compared to 64% in 2016).

Only one item changed from the top three ranking compared to 2016 results: Cost reduction which was ranked in second place in 2016 (57%), moved to fifth place in 2017. It was replaced by talent acquisition and development. With a 10 percentage-point increase, talent management received priority votes from 46% of respondents. Almost every third participant states mergers & acquisitions are a current priority at their companies. This is an increase by 9pp compared to 2016 and the largest relative gain compared to last year (+52%).

A significant decline is seen in product development and innovation, dropping in priority from 64% in 2016 to only 46% in 2017.

The importance of work force reduction declined steeply in 2017 by 17 percentage points, to currently only 4% of respondents considering it a company priority.

After an increase in importance in the previous year, initiatives in supply chain development are considered to have a lower priority by 11 percentage points (2016: 36%, 2017: 25%).

Finally, it is worth highlighting that restructuring and consolidation is continuing to lose importance for the third year in a row, currently seen as important by only 7% of respondents.

Industry priorities

What are your company's current priorities? [%]

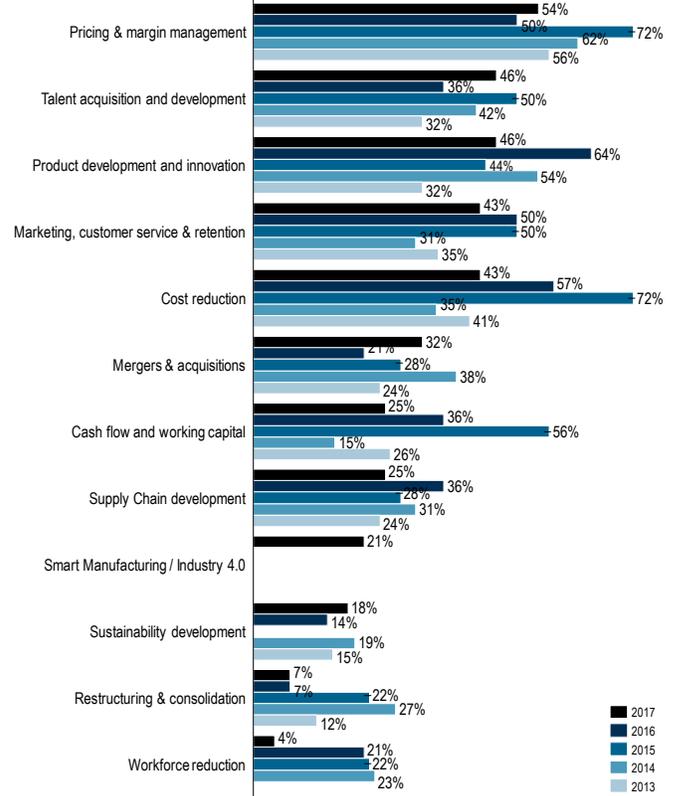


Figure 6 – Historical comparison of current priorities

Drivers and barriers to growth in North America

Domestic demand is considered the biggest driver of growth (66%), while only 21% of the participants foresee domestic demand as a potential barrier to growth.

Industry drivers

Please select the FIVE MOST IMPORTANT factors impacting growth of the forest based industry in North America positively or negatively.

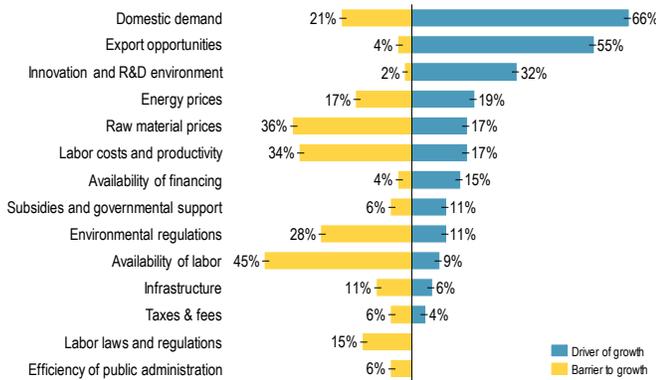


Figure 7 – Growth factors of forest-based industries in NA

Export opportunities and innovation & R&D are regarded as the second and third most important growth drivers by 55% and 32% of the respondents, respectively. Netting inhibitors and drivers of growth, Energy costs are considered a net driver of growth.

The most significant growth barrier is the availability of labor (45%), followed by raw material prices (36%) and labor cost and productivity (34%).

Looking at the most significant changes compared to 2016 energy prices fell from being a driver of growth for 30% of respondents in 2016, to only 19% in 2017. Also, availability of labor as a barrier increased from 30% in 2016 to 45% in 2017.

Export opportunities experienced the largest relative gain in terms of drivers of growth, moving from 36% in 2016 to 55% in 2017.

North America most attractive for Pulp and Paper industry

41% of participants believe that North America is more attractive for forest-based industries than all other global regions and 43% of respondents believe that North America is as attractive as other regions of the world.

NA attractiveness

How attractive is North America as an industry location for forest based industries, compared to the rest of the world?

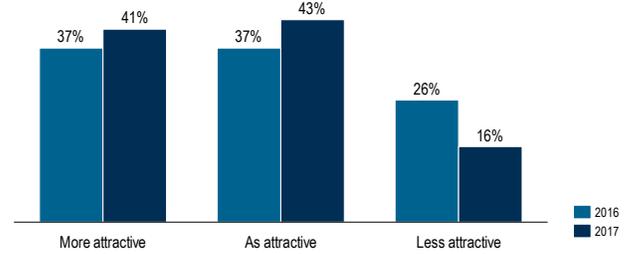


Figure 8 – Attractiveness of forest-based industry in NA

A shift from previous years could be observed: In 2017, the Americas were rated as the most competitive regions for the forest-based industry, with North America in first place, and South America in second place. East / Southeast Asia considered number one in 2016 only ranked third this year. As in previous years, the least competitive region is considered to be Africa.

NA attractiveness

Please rank the following regions according to their global competitiveness in the forest based industries (1 = most competitive)



Figure 9 – Attractiveness of forest-based industry in NA

North America was ranked first by 34% of participants and second by 18% of participants as the most competitive region. South America was ranked first by 24% of participants and second by 18% of participants. East/Southeast Asia was ranked first by 24% of respondents. Europe ranks in 4th place, Northern Asia/Russia in 5th place.

NA attractiveness

Please indicate the most attractive country for the forest based industries for each category

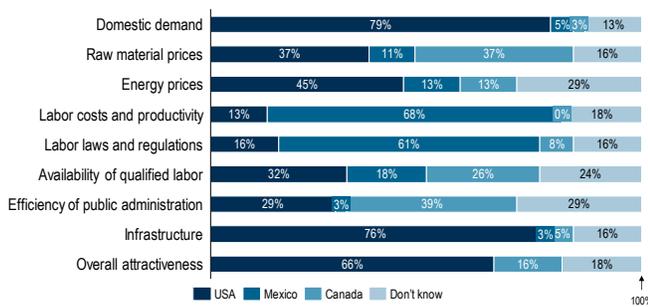


Figure 10 – Location attractiveness by topic

Within North America, the USA is rated, overall, the most attractive country for forest-based industries for 66% of the participants, followed by Canada (16%). The main leading categories of attractiveness in the USA are domestic demand with 79% and infrastructure with 76%. Further categories regarding the USA's attractiveness are energy prices (45%), raw material prices (37%) and availability of qualified labor (32%). For raw material prices, the USA and Canada are on par with 37% each. Regarding the efficiency of public administration, Canada has been ranked as most attractive by 39% of respondents. Mexico is considered the most attractive region regarding labor costs and productivity and labor laws and regulations by 68% and 61% of respondents, respectively.

Summary

The industry has more optimistic expectations than in 2016. In 2017 North America was considered the most competitive industry-location globally for the forest-based sector.

The business development is seen very optimistically: Survey respondents expect demand and prices to increase.

Companies continue to focus on customer and marketing related priorities. Main priorities revolve around pricing & margin management. Interesting to note is the increased focus on talent acquisition and development. Despite increasing costs, the focus on cost reduction as a company priority has dropped. The drop in the focus on innovation and product development is significant although still amongst top three priorities.

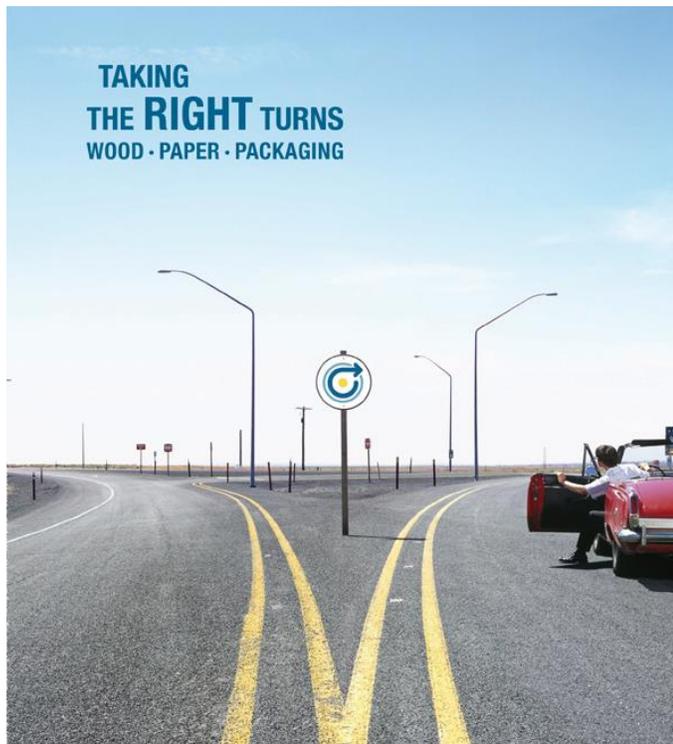
The survey further reflects that the main drivers of industry growth in North America are domestic demand and export opportunities. Labor costs, productivity and availability of labor

are perceived as a major threat to growth which may explain why talent management is the 2nd most mentioned company priority.

Most respondents perceive North America a more attractive than or an as attractive industry location as the rest of the world. North America was ranked number one among respondents as the most competitive region globally for forest-based industries, with South America in second place.

The perception of the US as the leading region is stable compared to 2016. Domestic demand, infrastructure, and energy prices are considered the key drivers of competitiveness. The only area where the US experienced a significant drop in perceived attractiveness is the availability of qualified labor (2016: 52%, 2017: 32%).

In conclusion, the overall business outlook has experienced an upswing compared to the previous year and remains very positive. No perception indicators from this survey signal any upcoming storms. With the many years of continued growth in this industry it may well be that thunderstorms appear which is more desirable than a hurricane. While the outlook is outstanding it is always an advisable strategy to expect & budget for the best and scenario-plan for the worst.



About StepChange Consulting

StepChange is an industry focused and independent management consulting company with a proven track record in supporting clients to achieve sustainable value. StepChange provides support to top tier organizations in the industry from strategy development to implementation of operational improvements.

With an international team of industry experts StepChange can hit the ground running. StepChange provides innovative and yet pragmatic solutions, placing an emphasis on delivering measurable business results.

For further inquiries and comments regarding this Point of View please contact us at leapfrog@stepchange.com.



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