LSC COMMUNICATIONS

Global Strategic Services

Paper Market Update

January 2018

Industry News

- US Dept. of Commerce Issues Preliminary Ruling in Favor of Countervailing Duties Against Canadian Uncoated Groundwood Mills
  - *Average subsidy was 6.53%, amount of CVD varies by mill*
  - *Collection began 1/16/18; antidumping ruling to come by 3/7/18*
  - *Organizations in Canada and US protest decision*
  - *Preliminary ruling could be modified before finalization*
  - *http://tdn.com/news/local/norpac-praises-commerce-move-to-slap-duties-on-canadian-papermakers/article_f31514d5-4c13-5df9-831d-e811804dd967.html*
- UPM Moves Up Closure Date of PM5 at Blandin Mill
  - *Original closure of 3/31/18 moved to 12/30/17*
  - *Machine at Minnesota mill represented approximately 5% of North American coated groundwood capacity*
  - *UPM moving production to other machines/mills in their system*
  - *http://www.nasdaq.com/press-release/upm-completes-closure-of-paper-machine-5-in-blandin-by-end-of-year-20171220-00468*
- Verso Expands Scope of Strategic Alternatives Committee to Include Consideration of Possible Sale or Merger of Entire Company
  - *Committee originally formed in September by Board of Directors*
  - *http://investor.versoco.com/2018-01-16-Verso-Corporation-Expands-Strategic-Alternatives-Considerations*
- US Dept. of Commerce Revises Downward Countervailing Duties Against Canadian SC Paper Producers
  - *Original ruling in 2015 revised to decrease amount of CVD paid*
  - *Port Hawkesbury down to 15.65%, Irving down to 5.13%, Resolute down to 1.79%, Catalyst CVD previously eliminated*
  - *https://www.federalregister.gov/documents/2018/01/03/2017-28198/supercalendered-paper-from-canada-preliminary-results-of-countervailing-duty-administrative-review*
- Freight Demand Increase in Strengthening Economy Forces Increased Prices
  - *https://www.wsj.com/articles/tight-trucking-market-has-retailers-manufacturers-paying-steep-prices-1515150000*

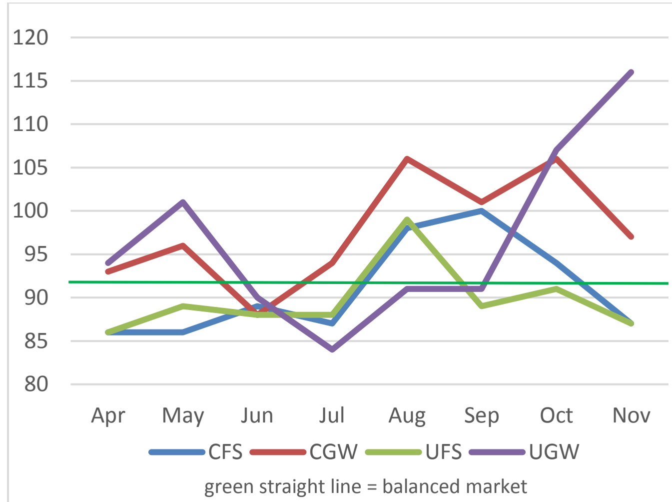
Dealing with Longer Lead Times for Paper

Over the past several years leads times for delivery of publishing papers have been very favorable with most grades available in as little as two to four weeks. However, loss of North American paper making capacity in 2017, greater demand for trucking and weather related disruptions have resulted in some grades currently not being available for as much as ten weeks. Mills haven't announced any formal allocation system but it's helpful to manage through longer lead times by doing the following:

- *Forecast paper requirements through H1 2018 and work with your paper supplier to ensure mills have an accurate forecast of needs.*
- *Where possible be flexible with requesting specific brands of paper to allow for more options to meet delivery requirements.*
- *Allow more time for paper deliveries to the West Coast, and be aware that trucks are expensive.*
- *Impact of duties on Canadian uncoated groundwood mills is unknown; uncoated freesheet capacity is shrinking in Q1 2018. Plan ahead.*

Mill Operating Rates

(shipments to capacity - not seasonally adjusted)



Source: RISI, LSC Communications

Product Segment Commentary

- Coated Freesheet
  - ***Lead times 6 – 10 weeks****; operating rates starting to trend down, however mills will offset lighter demand with inventory replenishment*
  - *Near to mid-term forecast is for mills to operate at or close to full capacity*
  - *SAPPI conversion project at Skowhegan mill delayed to late March; will remove 30+ days of production from 1 of 3 paper machines; once complete paper machine production will flex between publication grades and packaging*
- Coated Groundwood
  - ***Lead times 4 – 8 weeks;*** *Operating rates trending downward after high holiday demand*
  - *Early closure of UPM PM5 at end of 2017 will keep remaining capacity busier in H1 2018 than historical averages*
- Uncoated Freesheet
  - ***Lead times 3 – 6 weeks;*** *operating rates trending down but Q1 capacity reductions could result in longer lead times*
  - *Price increases of $2.00/cwt announced for January/February deliveries*
  - *Flambeau River announced closure of PM3 effective immediately; laser bond and offset grades impacted*
  - *Decreased supply to West Coast coming in 2018 could require longer lead times and/or freight considerations*
- Uncoated Groundwood
  - ***High bright ground grades lead times 6 – 10 weeks; newsprint lead times 6 – 8 weeks; SC lead times 4 – 6 weeks***
  - *Price increases announced partly due to supply/demand balance and partly due to duties against Canadian producers*
  - *Newsprint continues with high operating rates and lead times*
  - *SC production disrupted due to severe weather; Irving announced $2.00/cwt increase for March.*