

Net sales depressed by overcapacities and steep declines in demand



Net sales for the Paper Division amounted to CHF 262 million, down 31.7% from their prior-year level. EBIT margin remained solid at 11.6%, though this was also a substantial year-on-year decline.

Strategy

Digital media continue to compete with printed information channels, with corresponding swings in the sales volumes and earnings results of CPH's Paper Division. As a result of the industry's structural decline in demand, the newsprint and magazine paper market is one of overcapacities. Some of Perlen Papier's competitors announced the decommissioning of some of their paper machines in 2023; but these actions were insufficient to restore any meaningful balance between supply and demand. Despite such adversities, the Paper Division was able to further increase its European market share.

Perlen Papier is convinced that digital media will come to coexist with traditional print media using graphic papers, albeit with significantly lower printed media volumes. To continue to play its own active part in shaping the industry's future, the company pursues a cost leadership strategy. Its strong local roots also offer major customer benefits: close and direct customer relations, swift response times and good customer service, extensive flexibility and short delivery journeys with corresponding savings in carbon emissions. The Paper Division also uses carbon dioxide-free steam provided by the on-site Renergia waste incinerator facility to dry its paper webs.

Perlen Papier holds 50% of the Swiss and 10% of the European market, and is also Switzerland's biggest waste paper recycler. Sustainability is an increasing USP for CPH's Paper Division, and actions are constantly under way to reduce its carbon footprint. Its paper products are manufactured in Perlen with carbon dioxide emissions which, according to the Ten Toes model of CEPI, Europe's paper industry federation, are a quarter of those of its European competitors. For some years now, customers have also been offered carbon-neutral paper products for which the carbon dioxide emitted during manufacture is offset through a reforestation project in Uruguay.

Market environment

Demand for paper in Western Europe continued to fall in 2023, with newspaper consumption down 21% and magazine paper consumption as much as 25% down. The key reasons for the trend are growing digitalization and paper price increases in 2022 in response to higher energy costs as a result of the war in Ukraine. These developments affected both print runs and issue sizes of newspapers, magazines and other print items. Customers also reduced paper stocks in 2023 which they had accumulated in view of a possible energy shortage in winter 2022/23 and its potential impact on paper supplies.

The 2023 recovered paper market was volatile, too. The continued declines in the consumption of graphic papers resulted in a substantial reduction in the volumes of waste paper used in Perlen Papier's publication paper production and a corresponding initial growth in its recovered paper stocks. The company's reception volumes of recovered paper have now been downwardly adjusted to correlate more closely with the reduced need. Should the demand for paper products rise again in future, however, this could – as it has in previous years – prompt substantial shortfalls in the raw materials required.

The packaging industry remains a further consumer of recovered paper. For high-fibre applications, the entire recovered volume – paper and cardboard – can be used unsorted, reducing the availability of waste paper for graphic paper production. The prices of recovered paper did ease somewhat in the course of 2023, but they still remain high. Perlen Papier's paper products consist 80 % of recycled waste paper and 20 % of recycled wood.

Business development

The Paper Division sold 371 300 tonnes of printing paper in 2023, a volume which was slightly below its prior-year level. Of this, 269 600 tonnes were newsprint and 101 700 tonnes consisted of magazine paper. With the lower sales volumes combining with substantial pressures on sales prices, net sales for the year amounted to CHF 262 million, a decline of 31.7 % on 2022 or of 29.1 % at constant currency.

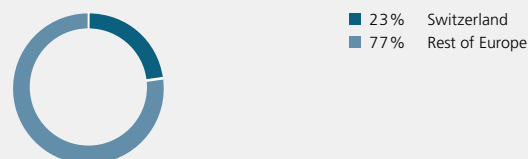
Despite comprehensive and continual savings and optimization endeavours, EBITDA for the year declined CHF 44 million to CHF 37 million, while EBIT amounted to CHF 31 million, compared to CHF 75 million in 2022. EBIT margin could not be maintained at its strong prior-year level, and fell to 11.6 %. The Paper Division invested CHF 17 million in renewing production equipment and further improving process efficiency. The divisional workforce numbered 354 employees, slightly down from the 371 of the previous year.

Outlook

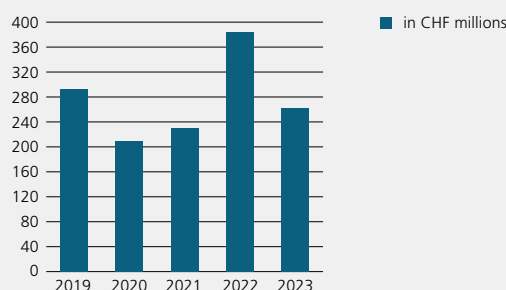
The paper manufacturing industry expects to witness further declines in the consumption of graphic papers and thus steep rises in production overcapacities in 2024. So sizeable consolidation pressures will continue to prevail. The cost of recovered paper is expected to remain high, while our energy procurement prices will also further increase. The Paper Division expects to post net sales and EBIT results for 2024 which are well below their prior-year levels, with the strong possibility of a negative annual EBIT result.

The Paper Division will continue to pursue its strategic and operational actions with undiminished vigour. Further removals of production capacity elsewhere will also be utilized to help raise its market share.

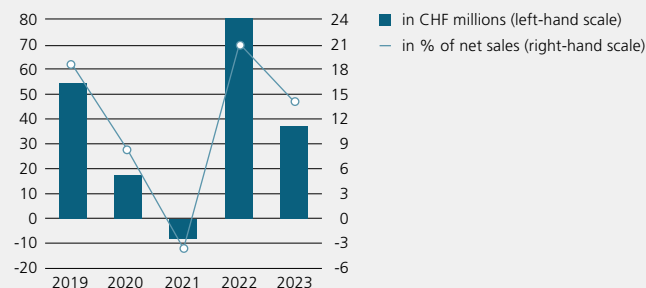
Paper net sales by region



Paper net sales



Paper EBITDA



Paper EBIT

