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FORESTRY & PAPER

Billerud

Second Quarter Insights: North American coated freesheet and specialty paper (Sappi) and European Paper Packaging (Mondi)

EXECUTIVE SUMMARY

1. ***Regional Market Dynamics:*** *The contrast between Billerud's operations in Europe and North America is defined by distinct market conditions, strategic priorities, and performance trajectories. North America is currently characterized by favourable and stable market conditions, with the region achieving its highest sales volume since late 2022. This performance is supported by a strong local supply position and operating rates consistently above 90%. Conversely, the European market sentiment remains muted, though the region is showing signs of improvement across specific sales channels.*

2. ***Market Sentiment and Performance in Sack Kraft:*** *The industrial channel, which includes the company's exposure to sack kraft, has shown signs of improvement during the second quarter of 2026. Specifically, the sentiment within the sack segment has strengthened throughout the quarter. The company reports that it is currently sold out of brown sack, noting a higher level of demand pull than has been observed for several quarters. While white sack demand remains somewhat muted, it is performing better than in previous periods. The company is observing a positive momentum in selective channels, with the industrial segment benefiting from improved conditions in the Middle East, North Africa, and Asia.*

3. ***Third quarter outlook:*** *The company anticipates a positive pricing impact of 1-2% for the European region and 2-3% for North America compared to the second quarter. Billerud expects continued favourable conditions in North America, supported by strong order books. While the European outlook remains more uncertain, the company anticipates a volume uplift in the third quarter as it continues to navigate a challenging industry landscape. The company remains open to evaluating structural changes and active roles in addressing broader industry challenges, acknowledging that the current sector-wide capacity imbalance requires ongoing management and potential strategic adjustments. The company anticipates a relatively flat input cost situation, though the environment remains unpredictable due to volatile oil prices and geopolitical tensions in the Middle East.*

KEY STATISTICS	
Share price (SEK)	68.75
Shares in issue (mn)	250
Market cap (SEKmn)	17,161
52-week range (SEK)	59 – 99
1-yr fwd EV/EBITDA (x)	6.5
1-yr fwd div. yield (%)	0%

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Billerud Second Quarter Insights

SEKmn	Q2 25A	Q1 26A	Q2 26A	YoY	QoQ
Net sales	10,244	9,825	9,834	*-4%*	*0%*
Adjusted EBITDA	912	525	661	*-28%*	*26%*
Adjusted EBITDA margin (%)	*8.9%*	*5.3%*	*6.7%*	*-218bp*	*138bp*
Net debt	5,845	6,236	6,588	*13%*	*6%*
Net debt/Adjusted EBITDA (x)	1.1	1.9	2.2	*100%*	*16%*
Group volumes (Kt)	863	899	865	*0%*	*-4%*
Average selling price (SEK/t)	11,870	10,929	11,369	*-4%*	*4%*

Source: Chronux Research, Company Data

Comparative Performance and Outlook

Metric	North America	Europe
Market Sentiment	Favorable/Stable	Muted/Improving
Operating Rates	Above 90%	Improving
Pricing Impact (Q3)	+2% to +3%	+1% to +2%

📦 **Q2 Financial Performance:** Group Adjusted EBITDA declined by -28% YoY (+26% QoQ) but beat consensus by +16%. The YoY decline was primarily driven by lower sales prices (-23% YoY), negative currency effects (-14% YoY), the loss of free emission allowances (equivalent to ~15% of EBITDA), and higher maintenance shutdown costs (-7% YoY). These headwinds were partly offset by lower raw material costs and cost-saving initiatives. Group volumes were broadly stable YoY but declined -4% QoQ. Net debt increased +13% YoY (+6% QoQ), while net debt/adjusted EBITDA rose to 2.2x (+100% YoY; +16% QoQ).

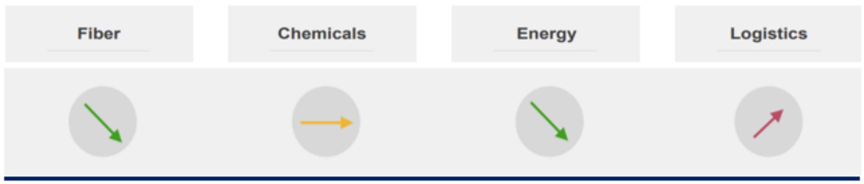
📦 **North America (Graphic Paper read-through for Sappi):** Market conditions remained favourable, with sales volumes reaching their highest level since Q4 22A. Billerud implemented price increases across graphic and label grades during Q2. These pricing actions were only partially reflected in Q2 results and are expected to be fully realised in Q3, helping offset input cost inflation.

📦 **Europe (Sack kraft & containerboard read-through for Mondi; consumer board relevant for Sappi):** Market conditions remained weak, characterised by subdued demand and persistent overcapacity. Sales volumes declined a further -3% YoY and -8% QoQ. Despite the weaker volume backdrop, management attributed the earnings improvement to a better price/mix, together with fixed cost reductions, which more than offset lower sequential sales volumes. Billerud implemented price increases for sack/kraft paper and containerboard during Q2 and announced further increases for Q3. Meanwhile, declining Nordic pulpwood costs continued to provide a supportive tailwind to margins.

📦 **Q3 26E Market Outlook:** Billerud expects North American market conditions to remain favourable, supported by strong order books extending into Q3, while Europe is expected to improve modestly, although the sustainability of the recovery remains uncertain. Positive pricing is expected in both regions. Overall input costs are guided to remain broadly flat, as lower pulpwood costs are expected to offset inflation in chemicals and logistics, as well as higher Q3 maintenance shutdown costs. Management also reiterated that structural overcapacity and unsustainable industry returns continue to weigh on the European market.

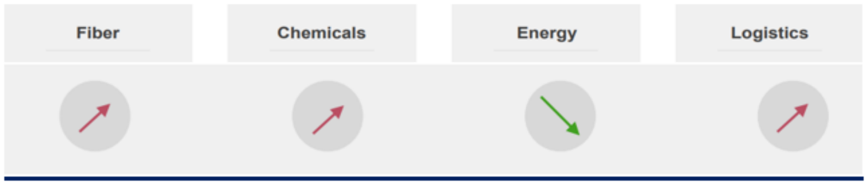
Costs

Europe input cost development during Q2 26A vs Q1 26A



Source: Chronux Research,Company Data

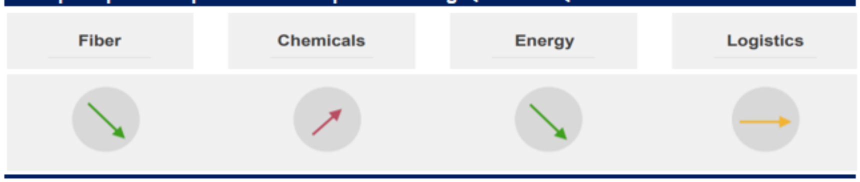
North America input cost development during Q2 26A vs Q1 26A



Source: Chronux Research,Company Data

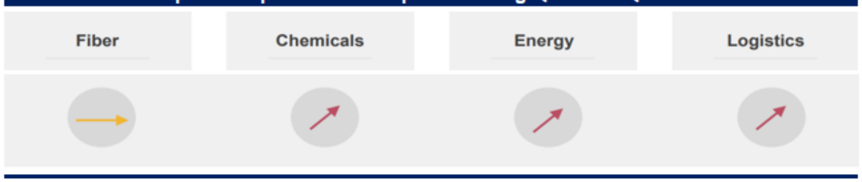
📦 **Input cost development (Q2 26A vs Q1 26A):** Europe was the key source of cost relief in Q2, with lower Nordic pulpwood (fibre) and energy costs providing meaningful support, while chemical costs were broadly flat and only logistics costs increased. In contrast, North America experienced broader cost inflation, with higher fibre, chemicals and logistics costs, partly offset by lower energy costs. Overall, Group input costs were a net tailwind during the quarter. Raw material costs boosted EBITDA by 11% YoY, consistent with management's view that lower Nordic pulpwood and energy costs more than offset inflation in chemicals and logistics.

Europe expected input cost development during Q3 26E vs Q2 26A



Source: Chronux Research,Company Data

North America expected input cost development during Q3 26E vs Q2 26A



Source: Chronux Research,Company Data

📦 **Q3 26E Input cost outlook:** Europe is expected to remain the primary source of cost relief, with lower Nordic pulpwood (fibre) and energy costs continuing to provide support. This benefit is expected to be partly offset by higher chemical costs, while logistics costs are guided to remain flat. In contrast, North America is expected to face a broader inflationary environment, with fibre costs stable but chemicals, energy and logistics all expected to increase. Overall, the Group's cost environment is expected to become more balanced, with continued cost relief in Europe increasingly offset by broader inflationary pressures in North America.

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Europe: Paper Packaging (Board, sack kraft & containerboard: Mondi Insights)

SEKmn	Q2 25A	Q1 26A	Q2 26A	YoY	QoQ
Net sales	6,481	6,191	5,877	-9%	-5%
Liquid packaging board	*2,212*	*2,206*	*2,223*	*0%*	*+1%*
Containerboard	*1,217*	*1,162*	*1,065*	*-12%*	*-8%*
Kraft and specialty paper	*905*	*893*	*892*	*-1%*	*0%*
Sack paper	*861*	*738*	*621*	*-28%*	*-16%*
Cartonboard	*700*	*525*	*525*	*-25%*	*0%*
Pulp	*521*	*564*	*492*	*-6%*	*-13%*
Net OpEx	(6,148)	(6,070)	(5,412)	-12%	-11%
Adjusted EBITDA	333	121	465	40%	284%
Adjusted EBITDA margin	*5.1%*	*2.0%*	*7.9%*	*277bp*	*596bp*
Sales volumes (Kt)	626	660	610	-3%	-8%
Average selling price (SEK/t)	10,353	9,380	9,634	-7%	3%
Average EUR/SEK	10.96	10.69	10.89	-1%	2%
Average price (EUR/t)	944	877	885	-6%	1%
Liquid packaging board (% of sales)	*32.7%*	*35.6%*	*37.8%*	*508bp*	*219bp*
Containerboard (% of sales)	*18.8%*	*18.8%*	*18.1%*	*-66bp*	*-65bp*
Kraft and specialty paper (% of sales)	*14.0%*	*14.4%*	*15.2%*	*121bp*	*75bp*
Sack paper (% of sales)	*13.3%*	*11.9%*	*10.6%*	*-272bp*	*-135bp*
Cartonboard (% of sales)	*10.8%*	*8.5%*	*8.9%*	*-187bp*	*45bp*
Pulp (% of sales)	*8.0%*	*9.1%*	*8.4%*	*33bp*	*-74bp*

Source: Chronux Research, Company Data

📦 **Financial Performance (54% of Group Adjusted EBITDA):** Adjusted EBITDA surged +40% YoY (+284% QoQ), with the margin expanding to 8% from 5% a year ago. The improvement was driven by a stronger price/mix, fixed cost reductions from the cost-saving programme, and lower Nordic pulpwood costs, which more than offset weaker sales volumes (-3% YoY, -8% QoQ). Results were negatively affected by the loss of free emission allowances, although this was partly mitigated by a lower maintenance shutdown cost impact than in the prior year.

📦 **Demand vs. Supply Trends (Negative for Sappi Europe and Mondi):** Underlying market conditions remained structurally weak, characterised by subdued demand and persistent overcapacity in board materials. While sentiment in Asia improved modestly, supply chains in the Middle East remained disrupted by the conflict in Iran. Despite the challenging backdrop, Billerud successfully implemented price increases for sack and kraft paper and containerboard during Q2, with further increases to be realised in Q3.

📦 **Fibre cost tailwind continuing:** Lower Nordic pulpwood costs were a key driver of Q2's earnings improvement, with further fibre cost relief and lower energy costs expected in Q3. These benefits are expected to be partly offset by higher chemical costs, while logistics costs are guided to remain broadly flat rather than becoming an additional headwind.

📦 **Q3 26E Outlook:** Billerud expects market conditions in Europe to improve modestly in Q3, although management cautioned that the underlying recovery remains uncertain and stopped short of calling it a sustained trend. The company guides to a positive regional pricing impact of 1–2%, reflecting the Q2 price increases, alongside solid order books and stronger sales volumes than in Q2. However, management continues to highlight structural overcapacity as an unresolved industry issue, arguing that Europe's long-term competitiveness remains unconvincing without structural change, reinforcing the case for further capacity rationalisation despite Billerud's improving near-term regional outlook.

North America Segment: Coated freesheet and Specialty Paper (Sappi Insights)

SEKmn	Q2 25A	Q1 26A	Q2 26A	YoY	QoQ
Net sales	2,891	2,748	3,103	*7%*	*13%*
Graphic paper	2,049	1,927	2,185	*7%*	*13%*
Specialty paper	499	502	574	*15%*	*14%*
Pulp	331	263	253	*-24%*	*-4%*
Net OpEx	(2,269)	(2,295)	(2,704)	*19%*	*18%*
Adjusted EBITDA	622	453	399	*-36%*	*-12%*
Adjusted EBITDA margin (%)	*21.5%*	*16.5%*	*12.9%*	*-866bp*	*-363bp*
Sales volumes (Kt)	237	239	255	*8%*	*7%*
Average selling price (SEK/t)	12,198	11,498	12,169	*0%*	*6%*
Average $/SEK	9.67	9.13	9.37	*-3%*	*3%*
Average price ($/t)	1,261	1,259	1,299	*3%*	*3%*
Graphic paper (% of sales)	*70.9%*	*70.1%*	*70.4%*	*-46bp*	*29bp*
Specialty paper (% of sales)	*17.3%*	*18.3%*	*18.5%*	*124bp*	*23bp*
Pulp (% of sales)	*11.4%*	*9.6%*	*8.2%*	*-330bp*	*-142bp*

Source: Chronux Research, Company Data

📦 **Financial Performance (46% of Group Adjusted EBITDA):** Adjusted EBITDA declined -36% YoY (-12% QoQ), with the EBITDA margin compressing to 13% from 22% in Q2 25A. The decline was primarily driven by the biennial maintenance shutdown (impact of -30% on underlying Q2 26A EBITDA), driving higher fixed costs and a delayed restart. Higher operating costs and adverse currency effects were additional headwinds. Despite the weaker earnings, sales volumes increased +8% YoY and +7% QoQ, reaching their highest quarterly level since Q4 22A.

📦 **Sales Mix:** Graphic paper, the largest product category, grew +7% YoY (+13% QoQ), while label paper increased +15% YoY (+14% QoQ). Market pulp was the only weak segment, with volumes declining -24% YoY (-4% QoQ). Operating rates of 94% indicate strong capacity utilisation, and the region delivered the strongest sales volume growth across the Group during the quarter.

📦 **Market sentiment:** Market conditions in North America remained favourable, with demand at normal levels across all product categories and strong order books heading into Q3. Billerud implemented price increases during Q2 to offset input cost inflation, particularly from higher oil prices. These increases were only partially reflected in Q2 results and are expected to be fully realised in Q3. Market pulp prices also increased during the quarter.

📦 **Q3 26E Outlook:** Billerud expects market conditions in North America to remain favourable in Q3, with a positive pricing impact as the Q2 price increases are fully realised. However, the region's input cost outlook is more inflationary than Europe, with fibre costs expected to remain flat while chemicals, energy and logistics costs are all guided higher. As a result, profitability is expected to be supported by pricing catch-up and the normalisation of operations following the Quinnesec maintenance shutdown, rather than by input cost relief.

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