

WESTPEAK RESEARCH ASSOCIATION

Neenah Inc. (NYSE:NP)

Consumer Goods - Paper & Pulp Products

Neenah Needs to Wait

April 30, 2020

Neenah Inc. is a global paper and pulp company that produces various fine paper and packaging as well technical products in US and Europe. It consists of 8 wholly owned subsidiaries that operate as independent bodies that manufacture and sell products.

Thesis

Neenah Inc.'s operations are threatened by global macroeconomic conditions and COVID-19, which may temporarily decrease margins and lower net sales. However, Neenah's diverse product line and sustainable growth strategy enable the company to weather the looming crisis and nimbly adapt to industry changes, positioning the company for a speedy recovery. However, current unpredictability in market conditions and high debt fetter Neenah's growth prospects, making the company a high-risk investment.

Drivers

The normalization of economic activity and acceleration of e-commerce due to COVID-19 position Neenah to deliver on the needs of rebounding industries and drive growth in their packaging and backings segment. Moreover, economic recovery will be bolstered by lower input prices, decreasing margins and driving profitability.

Valuation

Our target price of \$55 is based upon a 75% and 25% weighting of a discounted cash flow and comparable companies analysis respectively, with an emphasis on the the perpetuity growth method and exit multiple method compared to the EV/EBITDA multiple and P/E multiple.

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Equity Research	US
Price Target	USD\$ 55.00
Rating	Hold
Share Price (April 29 Close)	CAD\$ 51.23
Total Return	11.03%

Key Statistics	
52 Week H/L	\$77.55/\$33.44
Market Capitalization	\$860.19M
Average Daily Trading Volume	124,194
Net Debt	\$206.7M
Enterprise Value	\$710M
Net Debt/EBITDA	1.76x
Diluted Shares Outstanding	16.79M
Free Float	98.92%
Dividend Yield	3.67%

WestPeak's Forecast			
	2018E	2019E	2020E
Revenue	\$1034M	\$939M	\$790B
EBITDA	\$90M	\$117M	\$108M
Net Income	\$36M	\$55M	\$52M
EPS	\$2.15	\$3.18	\$3.10
P/E	26.5x	16.9x	15.8x
EV/EBITDA	16.9x	9.8x	9.3x



Business Overview

History

Neenah was incorporated in April 2004 in anticipation of the spin-off of Kimberly Clarke Corporation's technical products and fine paper business in the United States and Canada. The fine paper business spin-off endowed two mills located in Terrace Bay, Ontario and Pictou, Nova Scotia as well as 975,000 acres of related woodlands – all of which were unloaded through a series of transactions between 2006 and 2010. It also included the original mill in Neenah, Wisconsin, which is still in operation today, producing various fine paper & packaging products. The technical products subsidiary consisted of the Munising, Michigan mill, which has since been converted to produce durable, saturated products and coated papers with industrial applications in the technical products category. Following a series of acquisitions from 2006 to 2017 to diversify product lines and consolidate market share in the US and Europe, Neenah's name was changed from Neenah Paper, Inc. to Neenah, Inc. to reflect the company's new portfolio.

Acquisitions

In October 2006, Neenah purchased the outstanding shares of FiberMark Services GmbH & Co. KG to acquire three mills in Weidach, Bruckmühl, and Lahnstein, Germany. The Lahnstein mill operated as an independent business before it was sold in October 2015 to the Kajo Neukirchen Group for €50 million.

In March 2007, Neenah purchased the assets and brand of Fox River to develop its fine paper products and expand its presence in the United States market. This transaction most notably included a paper mill in Appleton, Wisconsin.

In January 2012, Neenah purchased the assets and brand of Wausau Paper Corp, another producer of fine paper products in the US. This acquisition was followed up by the purchase of certain paper brands from the Southworth Company in January 2013 to further consolidate the United States market.

In July 2014, Neenah purchased Crane Technical Materials, Inc. to acquire two manufacturing facilities in Pittsfield Massachusetts to increase their production of wet laid nonwoven media.

In August 2015, Neenah acquired FiberMark, a specialty coating and finishing manufacturer with mills in Brattleboro, Vermont, Brownville, Lowville, New York, Quakertown, Pennsylvania and Bolton, England.

In August 2017, Neenah purchased a laminating asset in Great Barrington, Massachusetts.

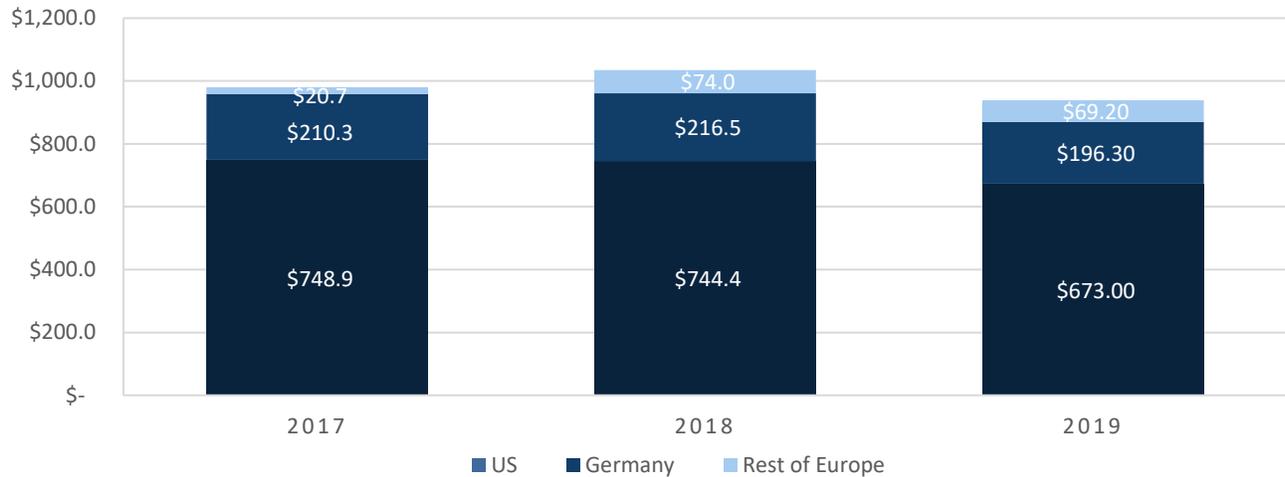
In November 2017, Neenah acquired a Netherlands based specialty materials manufacturer, Coldenhove, who are market leaders in digital transfer media and other technical products. This purchase included one manufacturing facility in Eerbeek, Netherlands.

As of January 2019, Neenah operates 15 mills in the United States, Germany, England, and Netherlands.

Company Overview

As of January 2019, Neenah consists of 8 wholly owned subsidiaries located in USA, Europe, and Asia, over 2,600 employees under management, and products sold in over 80 countries. Despite the company’s global presence, the significant majority of their operations are based in the United States with headquarters located in Alpharetta, Georgia.

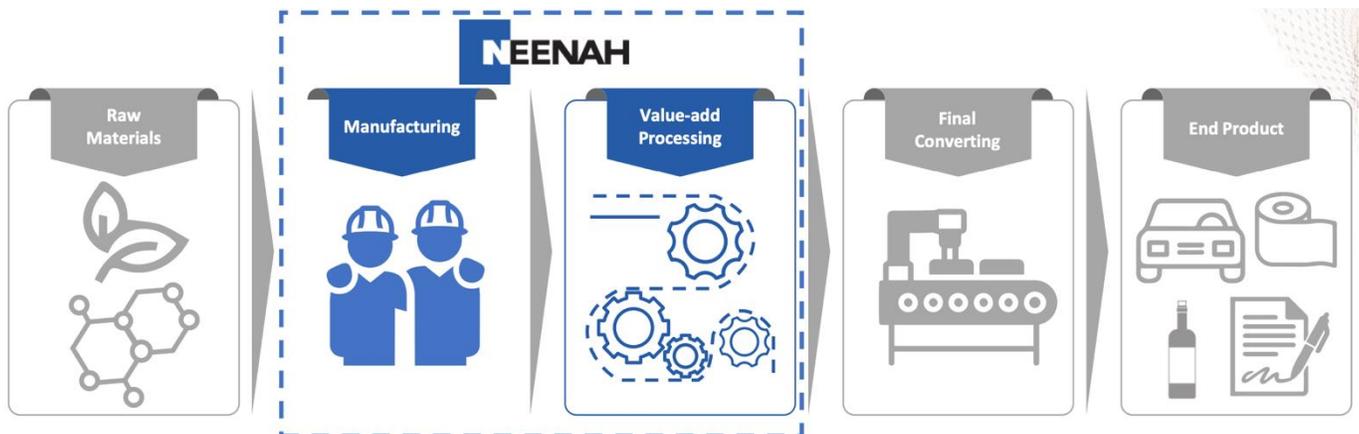
Net Sales By Region



Source: Company Filings

Product Selection

Neenah, Inc. offers a ranging selection of products that focuses on the intermediate stage of the value chain, transforming various raw materials into higher-value products used for final processing. The company is driven by innovation, using multiple technologies to manufacture, coat/saturate, and customize essential products for end-use performance. Neenah’s diverse product lines are categorized under three business segments: Fine Paper & Packaging, Technical Products, and Other.



Source: Investor Relations

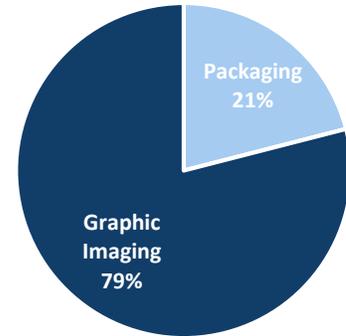
Fine Paper & Packaging

Neenah's fine paper & packaging business is an industry leader in premium printing, packaging, and other high-end specialty papers in North America. This category primarily includes stationary-related end products such as envelopes, business cards, brochures, and box wraps but also branches out into translucent papers, hang tags, and papers for optical scanning. Notable brands under Neenah's ownership and management include CLASSIC®, ESSE®, and CRANE'S CREST®. These products are predominately sold to authorized distributors, converters, major national retailers, and other specialty businesses, comprising of 50% of total sales in this category. This fine paper and packaging business has over 450 customers worldwide but is concentrated in the United States with exports accounting for only 11% of net sales for this segment.

Net sales in fine paper and packaging business decreased 11% in 2019 to \$396.9 million due to the sale of the Brattleboro Mill as well as volume declines in commercial print products from reduced demand and relationship change with a major distributor, but the loss was offset by higher selling prices and volume increases in premium packaging. Neenah has been slowly shifting away from this business segment and prioritizing their packaging products, which are used for wines, spirits, cosmetics, and electronics.

Neenah's fine paper & packaging operations are located in 4 specialized and 5 shared facilities across the United States with the bulk of the operations located at the paper mills in Neenah, Wisconsin and Whiting, Wisconsin.

Fine Paper & Packaging



■ Packaging ■ Graphic Imaging

Source: Company Filings



Source: Investor Relations

Technical Products

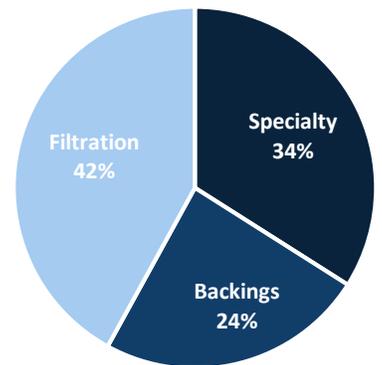
Neenah’s technical products business is an international supplier of fiber-formed, coated, and/or saturated specialized media. Products under this category vary from filtration media for transportation and water to specialty backing for automotive, construction, and woodworking to digital transfer media for clothing, sportswear, and hats. Neenah’s technical products target numerous distinct markets and have a wide range of applications. Final goods that contain Neenah’s footprint are coffee mugs, sportswear, passports, and airplanes.

The technical products business boasts more than 1,000 customers worldwide and maintains a team of direct sales representatives whom sell directly to customers and converters. Unlike the fine paper and packaging business, sales of technical products are dispersed geographically with 44% in North America, 38% in Europe, and 18% in Asia and Latin America. Customers generally convert base papers into products for end-users by adding adhesives, coatings, and other finishes.

Net sales in technical products decreased 7% in to 541.6 million in 2019 due to declines in volume – primarily in lower backings sales in Asia – and unfavourable currency effects. However, this business segment has been on the rise and is expected to drive future sales through their development of products for niche markets, driven by innovation and acquisitions.

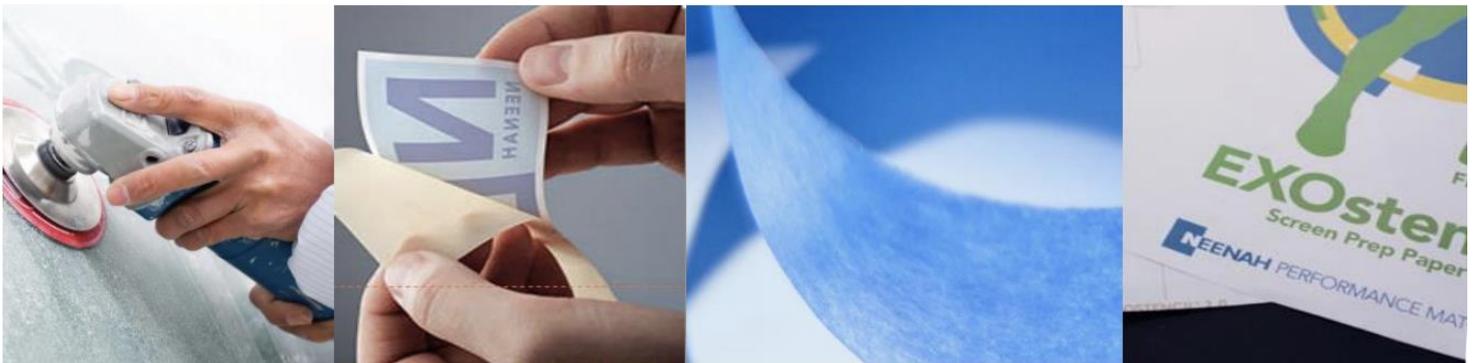
Neenah’s technical products’ operations are located in 6 specialized and 5 shared facilities across the United States, Germany, England, and Netherlands.

Technical Products



■ Specialty ■ Backings ■ Filtration

Source: Company Filings



Source: Investor Relations

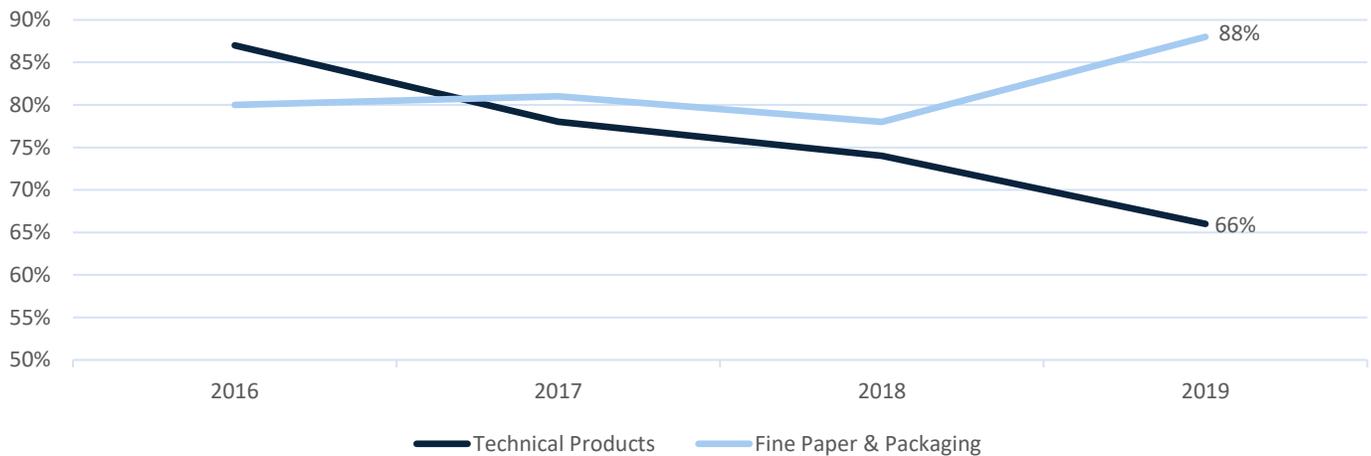
Other

Neenah’s other segment consisted of product lines that focused on paper’s end uses such as covering materials for yearbooks, diaries, and traditional photo albums. However, following the sale and closure of the Brattleboro Mill, this business segment was largely shut down with the remaining products reclassified in January 2019 under the technical products business.

Operational Strategy

Neenah's paper machines operate on a blended 3-shift 5-day or 7-day schedule with a maximum of 350 operating days per year. It aims to maintain a target capacity utilization rate of 80% to 90% and is not constrained by input factors. The increase in efficiency in for the fine paper & packaging business can be attributed to the sale of the Brattleboro Mill, while the decrease in efficiency for technical products can be explained by lower net sales.

Capitalization Utilization



Source: Company Filings

Additionally, Neenah also implements seasonal backlogging for their technical products business to accommodate seasonal demand. This segment is typically stronger in the first two quarters before experiencing a dip in the third quarter due to the reduction of year-end inventory from customers. Products such as specialty tape, abrasives, and labelling stock are primarily purchased in large volumes to be used in the downstream manufacturing process of finished goods. To ensure the quality and timely delivery of ordered good during seasonal peaks, technical products are sold on consignment and able to accommodate surges in orders. As a result, raw materials are purchased, and manufacturing schedules are determined by forecasted customer demand and market conditions. Although this is a comparatively efficient, time-saving strategy under normal business conditions, Neenah's operations could be severely jammed in unpredictable and volatile circumstances, hurting the bottom line. On December 31, 2019, the backlog for the technical products business amounted to approximately 118.1 million, which represents 22% of annual sales.

On the other hand, the fine paper & packaging business is generally unaffected by seasonality with orders being able to be shipped within two days due to consistent demand. In 2019, order backlogs for fine paper and packaging products amounted to \$16.3 million, which equals to roughly 14-15 days of sales.

Growth Strategy

Since the incorporation, Neenah has transformed its corporate strategy to better adapt to the declining conditions of the global paper industry. Neenah's growth strategy consists of a duality of entering niche, profitable product markets with the ability to become a market leader and accommodating forecasted demand through an aggressive acquisition strategy. Since 2006, the company has acquired 9 diverse operations in the United States, Germany, and the United Kingdom in an effort to expand manufacturing capabilities, diversify product lines, and reduce input costs. Neenah's last acquisition was in 2017.

Neenah's current growth strategy emphasizes a coalition between expanding product lines in high-value, specialty markets and increasing market dominance in existing high-performing markets by focusing on quality, image, and performance.

Utilizing Return on Invest Capital (ROIC) as the key metric, Neenah's steep drop in their annualized ROIC in 2018 bounced back by 400 basis points in 2019, jumping from 9.1% to 13.1%. Historically, Neenah has boasted high ROIC due to the company's capital-intensive operations with percentages of 19.7% and 15.4% in 2016 and 2017 respectively. The vast discrepancies between this two-year period can primarily be attributed to closure of their Brattleboro Mill and the subsequent impairment loss. With this said, it is also worth noting that the ROIC is one of the four categories for PSUs – or executive bonus compensation. Regardless, Neenah's ROIC consistently trades higher than WACC, which fluctuates mildly around 8%, denoting a premium pricing on the stock in anticipation of the company's value creation. We believe that this premium pricing is justified due to Neenah's growth potential, symbolizing the capital-intensive investments needed to maintain and expand the company's manufacturing operations.

Industry Analysis

Input Prices

Neenah primarily used softwood pulp, hardwood pulp, specialty pulps and fibers, and latex to develop the company's products. Input prices for the production and distribution of the aforementioned raw materials have risen significantly in the past few years but is expected to decrease because of COVID-19. The current oversupply of pulp is only temporary, with rebounding conditions set to normalize prices in the second half of 2020. In fact, prior to the pandemic, prices for hardwood and softwood pulp were expected to increase more than 2% annually in North America, while remaining relatively constant in Europe. Furthermore, decreasing transportation and energy costs may further compound input prices, increasing margins and bolstering the bottom line. Although input prices are favourable in the short run, the post-COVID-19 outlook and long-term estimates predict increases in transportation and energy costs as well due to decreasing supply of oil. However, the most prevalent threat to short-term input prices is the potential disruption in supply chain and the subsequent delay or cancellation of shipments. With this said, input prices across all sectors are expected to drastically decrease in the short run, before reemerging and increasing in price in the long run.

Shifting Demand

Despite a rapidly changing landscape and the influx of new technologies, the pulp and paper industry has experienced a 1% CAGR over the past decade and is expected to continue to grow in select categories. Demand within the pulp and paper

industry has begun to shift to accommodate the rise of digitalization and e-commerce. According to a study by McKinsey & Company in April 2019, the global packaging market is set to grow at a CAGR of 2% or more, with the rise of e-commerce – accelerated by COVID-19 – in the driver’s seat. From 2010-2018, global cartonboard and cardboard demand has increased by 1.7% and 2.7% annually, while Newsprint and printing and writing decreased 6.1% and 1.5% respectively. Additionally, the transport and industrial backings industry is also set to grow due to their intersection between sustainability, e-commerce, and technology integration. With e-commerce set to drive approximately half of the growth in demand for transport packaging over the next several years, this industry will see numerous opportunities for innovation and value-creation for the new type of consumer. Lastly, the growth and decline of pulp and paper markets are unevenly distributed geographically, with Latin America, East Europe, and Southeast Asia set to experience the highest levels of growth. North America and Western Europe paper and pulp markets are set to be stagnant, experiencing a CAGR of 0% to 2%.

Catalysts

COVID-19

The recovery from COVID-19 will undoubtedly drive sales due to normalizing market conditions. Although the timeline for said recovery is uncertain and unpredictable, the eventual return of the economy will allow Neenah to rebound from a tough sales year from pandemic-induced 2020. With this said, it is also notable to point out that Neenah has been operating despite the global shutdown as they were deemed essential business. With this said, demand for their products – primarily graphic imaging, filtration, and other specialty products – are expected to experience the biggest drops.

Rise of Digitalization and E-Commerce

The rise of e-commerce will drive the growth of the packaging, backings market, which currently account for 13.9% and 8.9% of consolidated net sales respectively. Although both product lines are the smallest contributor to their respective business segments at 21% in fine paper & packaging and 24% in technical products, these segments have consistently grown in the past several and are expected to continue growing. These macro trends have been propelled by COVID-19 and should continue to accelerate in a post-COVID world.

Acquisitions

Neenah has been keen and is actively looking to further develop and diversify their technical products segment through an intensive acquisition strategy. In March 2020, Neenah announced the acquisition of Vectorply, a leader in the manufacture of high-composite materials, for \$155 million in cash before the deal fell through in April. It has not acquired any businesses since 2017, which has led to a stagnation in the growth of their technical products department. However, the new leadership has expressed continued interest to increase acquisitions and are actively shopping around.

US-China Trade War

The resumption of the US-China relationship through the reduction of tariffs have been halted due to COVID-19. However, prior to the outbreak, the countries passed phase one of a trade deal with positive sentiment of normalizing conditions in the nearby future. Although Neenah holds limited presence in China, the country comprises of a noteworthy amount of sales in the technical products business and is a growing market that Neenah can tap into.

Management Team

John P. O'Donnell (President, CEO)

John P. O'Donnell is the current President and CEO of Neenah Inc. Previously the COO and President of Fine Paper, John joined the team in November 2004. His experience and expertise are concentrated around consumer products and paper, spending 20 years in the Georgia Pacific Corporation in increasingly senior management positions prior to his transition to Fine Paper. He is also a board member of Clearwaterholdings. In 2018, John O'Donnell made \$2.9 million in total compensation with a base pay of \$830,000, cash bonuses worth \$186,750, stock options amounting to 1.8 million, other compensation worth \$138,182. He is set to retire in the 2020 fiscal year with COO Julia A. Schertell set to replace him at President and Chief Executive Officer.



Source: Company Filings

Julia A. Schertell (Senior Vice President, Chief Operating Officer)

Julia A. Schertell is the current Chief Operating Officer at Neenah and the incumbent President and Chief Executive Officer, officially starting May 21, 2020. She first joined Neenah in 2008 as the Vice-President of Sales and Marketing for the fine paper division, before being promoted to President of the fine paper & packaging division in 2011 and President of the technical products division in 2018. In January 2020, Julia was promoted to the Chief Operating Officer as a part of Neenah's executive succession plan. Prior to joining Neenah, Julia served as the Vice-President of Customer Solutions at the Georgia-Pacific Corporation. In 2018, Julia made \$915,601 in total compensation with a base pay of \$415,000, cash bonuses worth \$67,860, stock options amounting to \$378,742, and other compensation totalling \$53,999.



Source: Company Filings

Bonnie C. Lind (Senior Vice President, CFO/Treasurer)

Bonnie C. Lind is the current CFO of Neenah and has been since she joined the organization in June 2004. Her experience and expertise are concentrated in finance and operations with her previous position as a senior financial and operations managed in Kimberly Clark. She also managed global operations and has a background in operational logistics within the pulp and paper industry. Kimberly is also on the board of directors of Hubbell Incorporated and U.S. Silica Holdings Inc. Bonnie is currently the longest serving executive at Neenah. In 2018, she earned \$895,598 in total compensation with a base pay of \$410,000, cash bonuses worth 61,500, stock options amounting to \$402,018, and other compensation totalling \$22,080.



Source: Company Filings

Bonus Compensation Incentives

Incentives within Neenah are driven by Performance Shared Unit Award Agreements (PSU) with individuals being assessed on four key factors: return on invested capital (ROIC), consolidated revenue growth, earnings per share (EPS), and return to shareholders relative to the Russell 2000 Value small cap index. In 2019, a total of 3.43 million of PSUs were granted by the company with approximately 20% of going to non-employee members of the board of directors and 80% awarded to employees. Although the specific targets for PSUs per person aren't disclosed, it can be assumed that the members on management have their bonus determined by a balance of those factors.

Succession Plan & Restructure

The leadership team at Neenah has seen drastic changes with more than half of the current executives joining the management team in 2018 or later. Following the retirement of longstanding CEO John O'Donnell, only two executives remain who have been in their position for an extended period of time and include CFO Bonnie Lind and Principal Accounting Officer Larry Brownlee, both of whom have retained their position since 2004. On the other hand, the recent hirings and promotions of four Senior Vice Presidents signal an internal restructuring effort and strategy shift. These moves are on par with Neenah's organizational realignment, absorbing the head of each segment into a Senior Vice-President of Sales and Marketing position and adding a chief of operations officer. With this said, the new members of the management team either hold relevant experiences in similar lines of work or have been a part of Neenah for awhile and are qualified to continue operations. These changes are expected to streamline efficiency in management.

Shareholder Base, Liquidity, Market Depth

Neenah Inc. currently has 16.8 million shares outstanding, leading to a free float of 98.92%. Institutions constitute 94.9%, while Inside Ownership comprises of 1.1%, leaving 3.9% to the General Public. Below is a table of the top 8 shareholders of Neenah Inc.

Shareholder	Shares Owned	% of Shares Outs.	AUM (\$B)	Country
BlackRock, Inc.	2,562,158	15.26%	7,429.63	USA
Wells Capital Management Inc.	1,368,183	8.26%	349.56	USA
Macquarie Investment Management	1,143,168	6.81%	542.70	Australia
Wellington Management Group LLP	1,093,610	6.51%	1,000.00	USA
The Vanguard Group, Inc.	1,093,427	6.51%	6,200.00	USA
Standard Life Aberdeen PLC	774,332	4.61%	312.10	UK
Dimensional Fund Advisors LP	763,522	4.55%	0.61	USA
State Street Global Advisors, Inc.	530,940	3.16%	2.80	USA

Source: Yahoo Finance

Valuation

Discounted Cash Flow Analysis

Revenue

Taking into consideration of COVID-19, Neenah's revenue is expected to drastically decrease for the first two quarters of 2020, before slowly recovering in the latter half of the year and in 2021. In the long run, Neenah's technical products segment is expected to drive sales, growing at an annualized rate of 12%, while the pulp and paper business is expected to grow at 3% annually due to the sale of the Brattleboro Mill and the rise of e-commerce.

Costs

Despite recent turnover on the management team and efforts to restructure streamlining production processes and reduce costs, SG&A has consistently floated slightly above 6% and we expect it continue hovering around the 6% mark for the next several years. Moreover, profit margins have remained relatively constant around 20%, but have experience recent volatility due to changes in input price. However, such effects were marginal, and we expect COGS to continue to hover around 80% of total revenue.

Capital Expenditures

Neenah's CAPEX rate has drastically differed from year-to-year, peaking in 2016 at 21.2% before bottoming out at 5.4% in 2019 – primarily from the sale of the Brattleboro Mill. Using the 2017 and 2018 rates of 10% and 9.6% respectively moving forward, we anticipate an increase of CAPEX to 10% in 2020 before incrementally increase by 2% annually moving forward. Neenah's growth strategy and recent negotiations Vectorply signal a potential acquisition to expand their technical products business.

Debt

Neenah is currently leveraged 1.76x with \$215.7 million in total debt. Although this level of debt is normal for the pulp and paper industry, the company's current debt repayment plan is unevenly balanced and may require refinancing. In 2021, Neenah is expected repay \$177.8 million in debt repayments, an unlikely possibility given the current circumstances. Moreover, if Neenah becomes levered 2.5x or more, then the company would have to limit dividend payments.

Weighted Average Cost of Capital

Neenah's weighted average cost of capital of 9.3% was determined based of a cost of equity of 10.3% and cost of debt of 3.6%. The cost of equity was calculated with a risk-free rate of 2.1%, expected market return of 8% and Beta of 1.4%. The cost of debt was determined by a pre-tax cost of debt of 4.5% and effective tax rate of 21%.

Dividend Policy

Neenah's management team recently announced that dividends would increase 4% for 2020, increasing the quarterly cash dividend from \$0.45 per share in 2019 to \$0.47 per share in 2020. This increase in a decline from the 7.2%, 10.8%, and 9.7% dividend growth in 2016, 2017, and 2018 respectively. Neenah's current dividend yield sits at 3.85% at \$1.88 annually.

Comparable Companies Analysis

Domtar Corporation

Boasting a market capitalization of 1.47 billion, Domtar Corporation is the largest integrated producer of uncoated free-sheet paper in North American and second in the world. Although the paper mill company based in Fort Mills, South Carolina, it operates extensively in Canada, while also maintain a global presence. Compared to the previous two companies, Domtar's product lines are more diverse and expand beyond the paper products, using pulp for ulterior purposes such as personal hygiene. Domtar also has factories in Europe with the company's overseas operations concentrated in Germany, but lacks the same international presence as Glatfelter, SWM, and Neenah. In total, Domtar has 28 mills and 10 replenishment facilities worldwide. The company's regional dominance in the North American market gives the highest market capitalization of the four companies, but still places Domtar within an appropriate range due to the similarities of core business activities.



Schweitzer-Mauduit International

Schweitzer-Mauduit International (SWM) is a diversified producer of materials based in Alpharetta, Georgia that focuses on engineered papers and advanced materials and structures. Under each division, the company offers a varied range of products of specialty paper products and conducts business in over 90 countries. It has 18 production facilities globally and primarily the tobacco industry, selling paper and reconstituted tobacco products. It's similarity in operations, diversified product lines, and market cap of 1 billion make it Neenah Incs. closest comparable.



PH Glatfelter Co

Founded in 1864 and headquartered in York, Pennsylvania, PH Glatfelter is a global manufacturer of specialty papers and engineered products with a long history in the pulp and paper industry. The company has 15 manufacturing facilities globally with a heavy presence in Europe. In fact, PH Glatfelter is a direct competitor of Neenah in Germany, but has a smaller overall presence globally compared to Domtar and SMW. The company's market size may be smaller than Neenah's at 646.9 million, but the difference is marginal as both companies operate in analogous markets.



Recommendation

Due to COVID-19 and future industry trends, we believe that Neenah will experience a continued dip from their 2020 Q1 & Q2 earnings but rebound back in the latter half 2020 and beginning of 2021. Through the company's growth strategy and rising product lines, Neenah will pose itself as an adaptable leader in the changing pulp and paper industry. Neenah's strong ROIC and effective corporate strategy allow it to nimbly rebound from the pandemic, but it's high debt with 177.8 million – or 83% – in debt payments due in 2021 pigeonhole expansion efforts and poise bankruptcy concerns. As a result, we give Neenah a **hold** rating. Neenah's debt is most likely to be refinanced due to the pandemic. Compared to peer group, Neenah is not overly leveraged, holding a net debt to EDIBTA ratio of 1.76x.

The reason we issued a 75/25 weighting between the discounted cash flow analysis is that Neenah Inc. consistently trades several multiples higher than the company's peer group while EPS volatility leads to a consistent benchmark. At this weighting, we reached a target price of \$55.55, with a DCF valuation of \$57.53 and comparables company valuation at \$49.59.

Risks

COVID-19

There still lingers much unpredictability on the global pandemic, which, if persisted for an extended period of time will negatively impact Neenah's operations. Although the company was deemed as an essential business and continued to operate despite global shutdowns, it is undeniable that contractionary forces for both the economy and their customers will decrease sales and harm their bottom line.

Dependency on Key Clients

In 2019, the largest customer for the fine paper and packaging and technical products business were 18% and 14% respectively, contributing to a combined total of 16% of net sales. A significant loss of business from major clients may adversely impact Neenah's financial condition and damage the bottom line. However, Neenah's diverse product lines and increasing customer base should position mitigate overbearing implications.

Commodity Prices

In the past several years, changes in input prices have adversely affected earnings potential. Most recently, changes in input prices jumped 72% from -\$8.2 in 2017 million to -\$29.1 in 2018.

Pulp

Neenah's primary input material is pulp with usages of softwood and hardwood pulp split between technical products and fine paper & packaging respectively. Since Neenah purchases its pulp on the open market, the price for it are subjected to market volatility stemming from changes in the global supply and government regulation. Neenah is a price-taker in the pulp market and increases in the price of pulp will significantly affect earnings. Based upon the company's current volume of pulp purchases, a \$100 per ton increase will increase annual costs for pulp by \$23 million. Pulp prices are expected to drop in 2020, before recovering and growing in the near future.

Latex and Specialty Pulp

Neenah's technical products also source latex and specialty pulp from a limited number of global suppliers. These supply arrangements involve formal contracts and multi-year deals that have met production needs. These agreements are sound, but in the case of disruption from the suppliers, Neenah is prepared to substitute said items with other pulp grades and specialty latex to meet performance and quality requirements.

Energy & Transportation

Neenah's operations require significant energy input and costs. Though Neenah generates most of the electrical energy at the Munising mill and roughly 25% of the electrical energy at the Appleton and Bruckmühl mills, they are still susceptible to fluctuations in the energy market. In particular, their usage of natural gas, coal, and oil may be most severely affected by numerous macroeconomic conditions in the near future. Additionally, Neenah distribution services are primarily through

over-the-road freight and are subjected to fluctuating gas prices, changes transportation fees, and potential government regulation.

Government Regulation

Neenah's international presence places it under the direct supervision of three differing regulatory bodies and is under stringent regulation from the U.S., Dutch, German, and English authorities. Though government regulation is often unpredictable, looming changes in environmental law such as a carbon tax and/or GHG emissions quota may affect earnings.

Foreign Currency

Neenah's technical products business operations are directly affected by changes in exchange rates of currencies to non-U.S. operations. In particular, the four paper mills located in England, Netherlands, and Germany expose millions of dollars foreign exchange loss. A hypothetical 10% relative strengthening of the dollar against foreign local currencies would've decreased EBIT by \$4.0 million USD. Neenah does not hedge against exchange risk, which, although may seem important, has marginal impacts on the bottom line.

Legal Disclaimer

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Appendix 1: Model Summary

(Figures in mm USD)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Income Statement											
Revenue	839.7	887.7	941.5	979.9	1,034.9	938.5	790.1	987.6	1,068.5	1,157.9	1,257.0
EBITDA	116.6	132.9	146.1	137.6	90.2	117.2	108.4	138.3	149.6	162.1	176.0
Net Income	68.7	51.1	73.0	80.3	36.4	55.4	52.4	77.6	87.0	96.8	107.0
Earnings Per Share	\$ 4.07	\$ 3.00	\$ 4.27	\$ 4.71	\$ 2.15	\$ 3.28	\$ 3.10	\$ 4.59	\$ 5.15	\$ 5.72	\$ 6.33
Cash Flow Statement											
Capital Expenditures	(27.9)	(48.1)	(68.5)	(42.7)	(38.1)	(21.4)	(38.2)	(38.4)	(46.5)	(55.8)	(66.9)
Acquisitions	(72.4)	(118.2)	0.1	(43.1)	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	(17.1)	(20.3)	(22.4)	(25.1)	(27.8)	(30.5)	(33.0)	(35.7)	(38.4)	(41.1)	(43.8)
Dividend Per Share	\$ 1.02	\$ 1.20	\$ 1.34	\$ 1.48	\$ 1.64	\$ 1.80	\$ 1.96	\$ 2.12	\$ 2.28	\$ 2.44	\$ 2.60
Dividend Payout to Earnings	24.9%	39.7%	30.7%	31.3%	76.4%	55.1%	63.0%	46.0%	44.2%	42.5%	40.9%
Dividend Payout to Core FCF	15.1%	12.9%	12.1%	16.2%	21.1%	25.5%	26.3%	23.7%	22.8%	21.8%	20.7%
Dividend Yield	2.5%	2.2%	2.5%	2.0%	2.9%	3.2%	4.0%	4.3%	4.7%	5.0%	5.3%
Balance Sheet											
Current Assets	302.5	246.6	236.3	285.2	277.9	252.7	275.9	324.7	371.3	417.7	463.4
Non-Current Assets	428.1	504.8	529.3	619.2	583.3	575.1	578.6	582.1	593.3	612.9	641.8
Assets	730.6	751.4	765.6	904.4	861.2	827.8	854.5	906.8	964.7	1,030.6	1,105.3
Current Liabilities	94.1	106.1	108.0	124.6	120.8	100.4	107.7	118.1	127.4	137.7	149.1
Non-Current Liabilities	347.8	333.7	319.3	379.9	350.2	321.1	321.1	321.1	321.1	321.1	321.1
Liabilities	441.9	439.8	427.3	504.5	471.0	421.5	428.8	439.2	448.5	458.8	470.2
Shareholders' Equity	288.7	311.6	338.3	399.9	390.2	406.3	425.7	467.6	516.2	571.9	635.1
Cash	72.6	4.2	3.1	4.5	9.9	9.0	33.7	58.1	82.9	105.1	124.1
Debt	234.3	229.4	220.9	255.5	239.1	215.7	215.7	215.7	215.7	215.7	215.7
Net Debt	161.7	225.2	217.8	251.0	229.2	206.7	182.0	157.6	132.8	110.6	91.6
Minority Interests	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	1.4 x	1.7 x	1.5 x	1.8 x	2.5 x	1.76 x	1.7 x	1.1 x	0.9 x	0.7 x	0.5 x
Operating Metrics											
Return on Equity (ROE)	23.8%	16.4%	21.6%	20.1%	9.3%	13.6%	12.3%	16.6%	16.9%	16.9%	16.9%
Return on Assets (ROA)	9.4%	6.8%	9.5%	8.9%	4.2%	6.7%	6.1%	8.6%	9.0%	9.4%	9.7%
Return on Invested Capital (ROIC)	18.4%	18.8%	19.7%	15.4%	9.1%	13.1%	12.3%	16.6%	17.6%	18.2%	18.6%
Valuation Metrics											
Stock Price (High)	\$ 63.10	\$ 59.85	\$ 90.23	\$ 93.10	\$ 96.15	\$ 77.55	\$ 48.86	\$ 48.86	\$ 48.86	\$ 48.86	\$ 48.86
Stock Price (Low)	\$ 40.26	\$ 54.70	\$ 52.70	\$ 72.35	\$ 56.80	\$ 33.44	\$ 48.86	\$ 48.86	\$ 48.86	\$ 48.86	\$ 48.86
Stock Price (Average)	\$ 57.28	\$ 57.28	\$ 71.47	\$ 82.73	\$ 76.48	\$ 55.50	\$ 48.86	\$ 48.86	\$ 48.86	\$ 48.86	\$ 48.86
Diluted Shares Outstanding (Average)	16.9	17.0	17.1	17.1	17.0	16.9	16.9	16.9	16.9	16.9	16.9
Market Capitalization (Average)	974.4	974.4	1,221.1	1,410.6	1,297.6	938.2	826.0	826.0	826.0	826.0	826.0
Enterprise Value (Average)	1,199.6	1,199.6	1,438.9	1,661.6	1,526.8	1,144.9	1,008.1	983.6	958.9	936.6	917.7
P/E	9.9 x	18.2 x	12.3 x	15.4 x	26.5 x	16.9 x	15.8 x	10.6 x	9.5 x	8.5 x	7.7 x
EV/EBITDA	9.0 x	9.0 x	9.8 x	12.1 x	16.9 x	9.8 x	9.3 x	7.1 x	6.4 x	5.8 x	5.2 x
FCF Yield to Market Capitalization	-	5.9%	3.8%	5.1%	3.6%	8.4%	7.7%	7.8%	8.1%	8.0%	7.8%
FCF Yield to Enterprise Value	-	4.8%	3.3%	4.3%	3.1%	6.9%	6.3%	6.5%	6.9%	7.0%	7.1%

Appendix 2: Discounted Cash Flow Analysis

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
(Figures in mm USD)	FY2014	FY2015	FY2016	FY2017	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
WACC Calculations															
Cost of Equity															
Risk-free rate	2.1%														
Expected market return	8.0%														
Market Risk Premium	5.9%														
Beta	1.48														
Cost of Equity	10.8%														
Cost of Debt															
Pre-tax cost of debt	4.5%														
Effective tax rate	21.0%														
Cost of Debt	3.6%														
WACC															
Market value of equity	826.0														
Market value of debt	215.7														
Total Capitalization	1,041.7														
Cost of equity	10.8%														
Cost of debt	3.6%														
WACC	9.3%														
Free Cash Flow															
EBIT	86.6	101.4	114.1	104.3	54.1	17.4	19.8	19.0	22.1	78.3	73.7	103.3	114.4	125.9	137.9
Less: Tax expense	(7.5)	(29.4)	(29.6)	(11.4)	(3.9)	(3.7)	(4.2)	(4.0)	(4.6)	(16.4)	(15.5)	(21.7)	(24.0)	(26.4)	(29.0)
Add: Depreciation and amortization	30.0	31.5	32.0	33.3	36.1	8.8	19.0	30.2	(19.1)	38.9	34.7	34.9	35.2	36.3	38.0
Less: Capital expenditures	(27.9)	(48.1)	(68.5)	(42.7)	(38.1)	(4.3)	(4.7)	(4.9)	(7.5)	(21.4)	(38.2)	(38.4)	(46.5)	(55.8)	(66.9)
Less: Change in net working capital	9.0	1.8	(1.2)	(11.8)	(1.0)	(20.9)	13.6	8.7	(2.0)	(0.6)	8.7	(14.0)	(12.5)	(13.9)	(15.4)
Unlevered Free Cash Flow	90.2	57.2	46.8	71.7	47.2	(2.7)	43.5	49.0	(11.1)	78.8	63.5	64.1	66.5	66.0	64.7
Discount factor						0.25	0.50	0.75	0.75	0.75	1.00	2.00	3.00	4.00	5.00
Present Value of Unlevered Free Cash Flow						(2.6)	41.6	45.8	(10.4)	74.5	62.0	53.7	50.9	46.2	41.4
Discounted Cash Flow Valuations															
Perpetuity Growth Method															
Perpetuity Growth Rate	2.0%														
PV sum of unlevered FCF	328.6														
Terminal value	574.6														
Enterprise Value	903.2														
Add: Cash	9.0														
Less: Debt	215.7														
Less: Other EV adjustments	-														
Equity Value	696.5														
Shares outstanding	16.9														
Implied Share Price	\$ 41.20														
Current Price	\$ 48.86														
Implied Price	\$ 41.20														
Total Return	-15.7%														
Exit Multiple Method															
Terminal EV/EBITDA Multiple	10.0 x														
PV sum of unlevered FCF	328.6														
Terminal value	1,126.8														
Enterprise Value	1,455.4														
Add: Cash	9.0														
Less: Debt	215.7														
Less: Other EV adjustments	-														
Equity Value	1,248.7														
Shares outstanding	16.9														
Implied Share Price	\$ 73.87														
Current Price	\$ 48.86														
Implied Price	\$ 73.87														
Total Return	51.2%														

		WACC				
		10.20%	9.70%	9.20%	8.70%	8.20%
Perpetuity Growth Rate	1.00%	\$ 32.88	\$ 35.20	\$ 37.79	\$ 40.73	\$ 44.07
	1.50%	\$ 34.38	\$ 36.91	\$ 39.78	\$ 43.04	\$ 46.79
	2.00%	\$ 36.06	\$ 38.85	\$ 42.04	\$ 45.70	\$ 49.95
	2.50%	\$ 37.95	\$ 41.06	\$ 44.64	\$ 48.79	\$ 53.66
	3.00%	\$ 40.11	\$ 43.60	\$ 47.65	\$ 52.41	\$ 58.09

		WACC				
		10.20%	9.70%	9.20%	8.70%	8.20%
Terminal EV/EBITDA Multiple	8.0 x	\$ 58.12	\$ 59.49	\$ 60.89	\$ 62.33	\$ 63.81
	9.0 x	\$ 64.53	\$ 66.04	\$ 67.60	\$ 69.19	\$ 70.83
	10.0 x	\$ 70.93	\$ 72.59	\$ 74.30	\$ 76.05	\$ 77.85
	11.0 x	\$ 77.34	\$ 79.15	\$ 81.00	\$ 82.91	\$ 84.87
	12.0 x	\$ 83.74	\$ 85.70	\$ 87.71	\$ 89.77	\$ 91.89

Appendix 3: Comparables Companies Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				2018A EV/EBITDA	2019E EV/EBITDA	2020E EV/EBITDA	2018A P/E	2019E P/E	2020E P/E
Domtar Corp	(NYSE:UFS)	1,469.3	2,442.3	3.5 x	5.7 x	7.6 x	5.2 x	16.7 x	(59.9 x)
Schweitzer-Mauduit Int'l	(NYSE:SWM)	1,004.9	1,506.7	6.9 x	7.9 x	7.2 x	10.5 x	11.8 x	9.8 x
PH Glatfelter Co	(NYSE:GLT)	646.9	952.9	11.9 x	35.3 x	7.9 x	(3.6 x)	(29.8 x)	17.6 x
Neenah Inc.	(XCH: TCK)	1,248.7	1,455.4	16.1 x	12.4 x	15.9 x	22.7 x	14.9 x	21.2 x
Median				6.9 x	7.9 x	7.6 x	-	11.8 x	9.8 x
Mean				7.4 x	16.3 x	7.6 x	-	(0.5 x)	(10.8 x)
High				11.9 x	35.3 x	7.9 x	10.5 x	16.7 x	17.6 x
Low				3.5 x	5.7 x	7.2 x	(3.6 x)	(29.8 x)	(59.9 x)
				EV/EBITDA Implied Price			P/E Implied Price		
Median				\$ 42.46	\$ 29.09		\$ 38.57	\$ 22.52	
Mean				\$ 100.66	\$ 29.03		-\$ 1.48	-\$ 24.93	
High				\$ 232.46	\$ 30.90		\$ 54.73	\$ 40.46	
Low				\$ 27.06	\$ 27.11		-\$ 97.73	-\$ 137.76	