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**Media release**

Johannesburg, 09 February 2022

## **Sappi delivers excellent performance for first financial quarter 2022**

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: "I am very pleased with an excellent performance from the group. We outperformed the guidance provided at the end of the last quarter with EBITDA at US\$240 million, a 36% increase over the prior quarter (US\$177 million) and more than double the equivalent quarter last year (US\$98 million). Robust market demand in all product segments combined with the implementation of higher sales prices facilitated the growth and offset rising costs. This achievement was despite logistics and transport bottlenecks, as well as significant increases in energy, pulp and other raw materials."

The recovery has taken place within the context of the Covid-19 pandemic. Throughout this unprecedented time the health and safety of our employees remained paramount. A comprehensive Covid-19 action plan enabled us to operate in a safe and uninterrupted manner across all our regions."

Looking forward, Binnie stated: "Given the favourable demand outlook for all of our product segments we anticipate a further improvement in EBITDA for the second quarter of FY2022 from the excellent results achieved in the first quarter."

### **Financial summary for the quarter**

- EBITDA excluding special items US\$240 million (Q1 FY21 US\$98 million)
- Net debt US\$1,917 million (Q1 FY21 US\$2,056 million)
- Profit for the period US\$123 million (Q1 FY21 loss of US\$17 million)
- EPS excluding special items 20 US cents (Q1 FY21 loss of 1 US cent)



Global logistical challenges continued unabated and posed headwinds for our export sales and raw material procurement in all regions. Substantial energy, raw material and delivery cost inflation in the quarter was offset by selling price increases in the paper business.

Pulp sales volumes increased by 48% compared to the prior quarter as we secured more shipping capacity, albeit at higher cost, for our South African exports. The hardwood dissolving pulp (DP) market price decreased to US\$905 per ton on the back of weakening viscose staple fibre (VSF) demand and pricing in China. VSF prices rebounded towards the end of the quarter which stabilised DP pricing. Sappi's three dissolving pulp mills were fully sold throughout the quarter.

Markets for packaging and speciality papers continued to be robust across all regions with our sales volumes up 26% on a year ago. The successful implementation of price increases combined with product mix optimisation led to further progress in profitability for the segment.

Buoyant demand for graphic papers boosted sales volumes by 20% compared to last year and provided support for price increases, which were necessary to offset significant cost inflation and restore EBITDA margins for the segment. Notably, all assets ran at full operating capacity during the quarter.

Renewed strong demand in domestic and export markets supported price increases across all paper grades and facilitated the return of the European business to profitability. An unprecedented surge in energy prices for gas, power and coal compelled the implementation of an energy surcharge on all European products. This extraordinary measure was a key component of our strategy to offset the escalating energy costs and restore margins in the European business.

The North American region delivered a record first quarter EBITDA of US\$89 million, which was more than triple the prior year. This achievement was despite significantly higher costs.

Year-on-year profitability of the South African business was positively impacted by improved sales volumes and pricing in all segments. EBITDA was 46% higher than the prior quarter despite significant cost increases and logistical challenges.

## **Outlook**

The demand for DP continues to be strong. VSF pricing and operating rates improved in January which stabilised DP market prices at US\$905 per ton ahead of the Chinese New Year. An extremely high differential between cotton and VSF prices should support fibre substitution in future quarters which would be positive for DP demand and pricing. Furthermore, the addition of breakbulk shipping is expected to aid in the reduction of the DP sales backlog.



The recovery of sales for graphic papers across all regions combined with industry capacity closures has tightened the market balance. Additionally, the underlying demand in the packaging and speciality papers segment remains robust. The stronger markets for all our paper products should support announced price increase realisation which is necessary to offset extraordinarily high input costs.

Global logistical challenges and vessel shortages are likely to continue through FY2022, and our objective is to secure sufficient transport capacity to support the strong demand for our products and optimise delivery costs.

Timber, pulp, chemicals, energy and delivery costs are expected to remain at elevated levels through the current financial year. Specifically, in South Africa the higher delivery, timber and chemical prices will impact the margins for the pulp business.

As previously disclosed, capital expenditure is estimated to be US\$395 million for FY2022.

ENDS

**The full results announcement is** available at [www.sappi.com](http://www.sappi.com)

There will be a conference call to which investors are invited. Full details are available at [www.sappi.com](http://www.sappi.com) using the links Investors; Latest financial results

### Forward-looking statements

*Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, identify forward-looking statements. In addition, this document includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:*

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);*
- the COVID-19 pandemic;*
- the impact on our business of adverse changes in global economic conditions;*
- unanticipated production disruptions (including as a result of planned or unexpected power outages);*
- changes in environmental, tax and other laws and regulations;*
- adverse changes in the markets for our products;*
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;*

- *consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;*
- *adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;*
- *the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies;*
- *currency fluctuations.*

*We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.*

