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Media release

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Sappi delivers solid results in difficult economic climate

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: *"Within the context of ongoing challenging global macroeconomic conditions and weak paper markets I am pleased that the group delivered EBITDA of US$156 million, which was in line with guidance provided in the prior quarter."*

Profitability was negatively impacted by approximately US$45 million due to the lower production volumes associated with the planned maintenance shutdowns at the Saiccor, Ngodwana and Cloquet Mills offset somewhat by a US$26 million positive plantation fair value price adjustment.

A key element of Sappi's Thrive strategy is to reduce exposure to declining graphic paper markets and to ensure higher capacity utilisation in our graphic assets. The rationalisation of our European graphic papers capacity gained momentum during the quarter with the closure of the Stockstadt Mill and subsequent carouselling of sales volumes to alternate assets. The consultation process for the closure of the Lanaken Mill was also concluded late in the quarter.

Looking forward, Binnie stated: *"Taking into account the protracted macroeconomic uncertainty, we anticipate that EBITDA for the second quarter of FY24 will be similar to that of the first quarter."*

Financial summary for the quarter

- EBITDA excluding special items US$156 million (Q1 FY23 US$290 million)
- Net debt US$1,216 million (Q1 FY23 US$1,241 million)
- EPS excluding special items 8 US cents (Q1 FY23 30 US cents)
- Production at Stockstadt and Lanaken Mills in Europe permanently ceased

Paper markets remained unpredictable, and demand was still under pressure from low consumer confidence, high interest rates and ongoing geopolitical instability. While group sales volumes were down 12% compared to the prior year, selling prices during the quarter were reasonably stable for most products. We achieved significant year-on-year cost savings across all regions to mitigate some of the impact of lower sales.

Demand for dissolving pulp (DP) was robust, buoyed by high downstream viscose staple fibre (VSF) operating rates in China. Despite favourable demand and tight supply dynamics, the hardwood DP market price continued to be range bound by subdued VSF fibre selling prices due to sluggish textile and apparel markets, especially in Europe and China, influenced by low consumer confidence. The scheduled maintenance shutdowns during the quarter at all three DP mills impacted profitability for the segment and reduced sales volumes to 6% below the prior year.

Profitability of the packaging and speciality papers segment was impacted by lower South African containerboard sales due to the planned maintenance shut at the Ngodwana Mill, sluggish underlying European demand and residual destocking across a number of product categories. On a positive note, demand for paperboard in North America showed signs of recovery as customer inventories normalised. Sales volumes for the segment were 14% below the prior year.

Graphic papers demand showed signs of a muted recovery from the lows of the third quarter of FY23 as downstream inventory levels normalised through the supply chain. Sales volumes were 14% below last year but improved by 6% compared to the prior quarter.

The performance of the European business improved from the low of the prior quarter as sales volumes increased. Graphic papers sales volumes increased 9% quarter-on-quarter as downstream inventory levels slowly normalised. Market conditions for the packaging and speciality papers segment remained challenging driven by substantially reduced demand for consumer goods in the European region.

Within the context of tough market conditions, the North American business delivered another solid set of results, notwithstanding the scheduled maintenance shutdown at the Cloquet Mill. Demand in paper markets continued to slowly recover.

The South African business delivered a good performance for the quarter taking into account the negative impact of the planned maintenance shutdowns at the Ngodwana and Saiccor Mills. Profitability was supported by a weaker Rand/US dollar exchange rate, which benefited the pulp segment, and the inclusion of a positive ZAR484 million plantation fair value price adjustment. We recognise that our forestry assets are an integral part of the South African business and we have therefore taken the decision to include the forestry valuation in our EBITDA, thereby aligning with many of our peers.

Outlook

The global economy has yet to show signs of significant improvement and we anticipate demand for many of our products will continue to be impacted by weak consumer sentiment and low economic growth. Order activity for paper products is slowly improving and it appears the extended destocking cycle has concluded across the majority of our key product categories.

Dissolving pulp demand remains robust supported by high VSF operating rates and a positive differential between VSF and cotton pricing. The seasonal slowdown of the textile industry in China associated with the Lunar New Year celebrations has historically exerted short-term pressure on DP pricing in the second quarter. However, we anticipate that underlying textile demand will likely drive positive pricing momentum after the holiday period, further supported by a tight DP supply landscape.

Packaging and speciality paper markets in North America and South Africa are steadily improving. European markets remain weak, and recovery may take longer in this region.

Although we anticipate a further small rebound in graphic papers sales volumes through FY24 as value chain inventory levels normalise, we believe that the market remains in oversupply. We will complete the restructuring and closure of the Lanaken Mill during the second quarter and anticipate that reduced fixed costs and improved capacity utilisation in the remaining European assets will yield significant cost savings through the second half of the year.

Cost inflation remains a risk in the second quarter as paper pulp prices are rising. In addition, the Middle East conflict is impacting shipping routes will likely increase logistics costs for the business.

Capital expenditure for FY24 is expected to be in the region of US$500 million and as previously communicated, includes approximately US$154 million for the Somerset Mill PM2 conversion and expansion project.

We anticipate a substantial cash outflow in the second quarter related to the closure of the two European mills and the dividend payment. Sappi is well positioned with healthy cash reserves and liquidity to fund this outflow.

Good progress is being made in our key strategic focus areas to reduce exposure to graphic papers and grow our packaging business. The European restructuring programme and capital investment in North America to increase our paperboard capacity will strengthen our long-term competitive position and deliver sustained value for our stakeholders.

ENDS

The full results announcement is available at www.sappi.com

There will be a conference call to which investors are invited. Full details are available at 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 cyclicality, 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.