

Sappi Limited
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 JSE code: SAP
 ISIN code: ZAE000006284
 Issuer code: SAVVI
 ("Sappi" or "the Group")

Results for the first quarter ended December 2023

US\$ million	Quarter ended		
	Dec 2023	Dec 2022	% Change
Sales	1 272	1 660	-23%
EBITDA excluding special items	156	290	-46%
Profit for the period	(126)	190	N/M
Net debt	1 216	1 241	-2%
Headline EPS (US Cents)	(22)	34	N/M
Basic EPS (US Cents)	(23)	34	N/M
EPS excluding special items (US Cents)	8	30	-73%
Net asset value (US Cents)	404	447	-10%

N/M - Not meaningful

Sappi is a leading global provider of everyday materials made from woodfibre-based renewable resources. As a diversified, innovative and trusted leader focused on sustainable processes and products, we are building a more circular economy by making what we should, not just what we can.

Our raw material offerings (such as dissolving pulp, wood pulp, biomaterials and timber) and end-use products (packaging papers, speciality papers, graphic papers, casting and release papers and forestry products) are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production facilities powered, in many cases, with bio-energy from steam and existing waste streams.

Together with our partners, Sappi works to build a thriving world by acting boldly to support the planet, people and prosperity.

Commentary on the quarter¹

Within the context of ongoing challenging global macroeconomic conditions and weak paper markets, the group delivered EBITDA excluding special items (EBITDA) of US\$156 million,

¹ "year-on-year" or "prior/previous year" is a comparison between Q1 FY2024 versus Q1 FY2023; "quarter-on-quarter" or "prior/previous quarter" is a comparison between Q1 FY2024 and Q4 FY2023

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 adjustment². 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.

Paper markets remained unpredictable, and demand was still under pressure from low consumer confidence, high interest rates and ongoing geopolitical instability. Group sales volumes³ were down 12% compared to the prior year and we continue to optimise production rates to match sales. Despite the tough conditions, selling prices during the quarter were reasonably stable for most products. Significant year-on-year cost savings across all regions enabled the business 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 price⁴ continued to be range bound by subdued VSF selling prices due to sluggish textile and apparel markets, especially in Europe and China, influenced by low consumer confidence. DP prices peaked at US\$900 per ton but subsequently decreased to US\$880 per ton at quarter end. This reduction was attributed to lower VSF pricing as the Chinese market entered the seasonally slow period ahead of the Chinese Lunar New Year. 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.

Graphic paper demand showed signs of a muted recovery from the lows of the third quarter of FY2023 as downstream inventory levels normalised through the supply chain. Sales volumes were 14% below the prior year but improved by 6% compared to the prior quarter. 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 paper 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.

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.

Earnings per share excluding special items for the quarter was 8 US cents, which was substantially below the 30 US cents in the prior year and reflective of the more challenging

² From fiscal 2024, EBITDA excluding special items now includes the plantation fair value price adjustment which was previously included as part of special items.

³ Sales volumes excluding forestry.

⁴ Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group.

operating environment. Special items reduced earnings by US\$179 million and were primarily related to US\$169 million in restructuring and closure costs associated with the closure of the Lanaken Mill.

Cash flow and debt

Net cash utilised for the quarter was US\$69 million compared to the US\$23 million generated in the prior year. The lower cash generation was primarily due to reduced profitability. Capital expenditure of US\$75 million was above last year due to the planned increased expenditure related to the Somerset Mill PM2 conversion and expansion project during the period.

Net debt of US\$1,216 million was US\$25 million below last year but higher relative to the record lows of the prior quarter. This was due to the net cash utilised and a negative currency translation effect of US\$56 million due to a weaker US Dollar on our Euro-denominated debt. Liquidity comprised cash on hand of US\$533 million and US\$678 million from the committed unutilised revolving credit facilities (RCF) in South Africa and Europe. Sappi's progress in significantly reducing net debt levels over the past two years has positioned the business and the balance sheet well to navigate the tougher economic climate and cyclical downturns.

Post Balance Sheet Events

On 18 January 2024, Sappi issued a notice of early redemption of the remaining ZAR1.165 billion (US\$63.7 million) Sappi Southern Africa's 5.25% senior unsecured convertible registered bonds due 26 November 2025. Bondholders who do not want their Bonds to be redeemed for cash may exercise their conversion rights at any time up to close of business on Tuesday, 5 March 2024.

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 papers 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 paper sales volumes through FY2024 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 which will likely increase logistics costs for the business.

Capital expenditure for FY2024 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 paper 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.

Taking into account the protracted macroeconomic uncertainty, we anticipate that EBITDA for the second quarter of FY2024 will be similar to that of the first quarter.

On behalf of the Board
S R Binnie
Director

G T Pearce
Director

07 February 2024

This results announcement is the responsibility of the directors. It is only a summary of the information in the full announcement and does not contain full or complete details. Any investment decision should be based on the full announcement accessible from 07 February 2024 via the JSE link and also available on the home page of the Sappi website at www.sappi.com.

The JSE link is as follows:

<https://senspdf.jse.co.za/documents/2024/JSE/ISSE/SAVVI/SAPQ1.pdf>

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