Sappi Limited
Registration number: 1936/008963/06
JSE code: SAP
ISIN code: ZAE000006284
Issuer code: SAVVI
("Sappi" or "the Group")

Results for the second quarter ended March 2024

	Quarter ended			Half-year ended		
US$ million	**Mar 2024**	**Mar 2023**	% Change	**Mar 2024**	**Mar 2023**	% Change
Sales	1 352	1 442	-6%	2 624	3 102	-15%
EBITDA excluding special items	183	167	10%	339	457	-26%
Profit for the period	29	69	-58%	(97)	259	N/M
Net debt	1 366	1 225	12%	1 366	1 225	12%
Headline EPS (US Cents)	5	12	-58%	(16)	46	N/M
Basic EPS (US Cents)	5	12	-58%	(17)	46	N/M
EPS excluding special items (US Cents)	12	11	9%	20	41	-51%
Net asset value (US Cents)	387	447	-13%	387	447	-13%
Dividend per share (US cents)	-	-	N/M	-	-	N/M

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 quarter[1]

Operating performance for the second quarter was slightly ahead of expectations with the group delivering EBITDA[2] excluding special items of US$183 million, which was 10% above

[1] "year-on-year" or "prior/previous year" is a comparison between Q2 FY2024 versus Q2 FY2023; "Quarter-on-quarter" or "prior/previous quarter" is a comparison between Q2 FY2024 and Q1 FY2024
[2] EBITDA in this report excludes special items

the prior year. The increase was primarily due to an improvement from the pulp segment and significant cost savings, which included a 9% reduction in cash fixed costs following the closures of the Stockstadt and Lanaken Mills in Europe. Included in EBITDA was a positive plantation fair value price adjustment of US$3 million. A modest recovery in global paper markets was observed following the extended destocking cycle in 2023 but underlying market conditions generally remained subdued due to the challenging macroeconomic environment.

Dissolving pulp (DP) demand was strong throughout the quarter boosted by a tight supply landscape, low downstream inventory levels and high viscose staple fibre (VSF) operating rates following the Chinese Lunar New Year celebrations. The hardwood DP spot market price[3] responded positively and increased by US$60/ton to end the quarter at US$940/ton. Sales volumes for the pulp segment increased by 2% year-on-year. Profitability for the segment was further supported by significant cost savings, particularly for wood and chemicals.

The gradual recovery of graphic papers demand continued throughout the quarter as downstream value chain inventories normalised causing sales volumes to increase by 7% compared to the prior year. However, there has been a structural decline in demand from the highs of 2022. Operating rates in our European graphic papers assets increased substantially during the quarter due to the successful transfer of sales volumes from the closed Stockstadt and Lanaken Mills. Selling prices were stable during the quarter despite the soft market conditions. The combination of increased sales volumes and cost savings facilitated a year-on-year improvement in profitability for the segment.

Packaging and speciality papers demand rebounded during the quarter. Sales volumes improved by 9% compared to the prior year with a mixed performance across the regions. A strong recovery of demand in North America facilitated a return to full paperboard capacity utilisation at the Somerset Mill during the quarter. Although sales volumes also improved in Europe, the market conditions remained challenging and the underlying demand for many of our products was negatively impacted by weak downstream consumer sentiment in the region. Underlying demand in South Africa was healthy, but sales volumes continued to be impacted by overstocked paper supply chains. Selling prices came under significant pressure in the second half of FY2023 and were 13% below the prior year. Cost savings were insufficient to offset the negative impact of the lower selling price and profitability for the segment declined compared to last year.

Earnings per share excluding special items for the quarter was 12 US cents, which was slightly above the 11 US cents in the prior year. Special items reflected a net expense of US$46 million due primarily to closure and restructuring costs for the Stockstadt and Lanaken Mills.

Cash flow and debt

Net cash utilised for the quarter of US$234 million was principally due to a cash outflow of US$133 million for the closure and restructuring of the Stockstadt and Lanaken mills, a dividend payment of US$84 million and a seasonal working capital investment of US$45 million. Capital expenditure of US$65 million was below that of last year due to the phasing of

[3] Market price for imported hardwood dissolving price into China issued daily by the CCF Group

capital spending for the Somerset PM2 conversion and expansion project, which will be more heavily weighted towards the second half of FY2024.

Net debt of US$1,366 million was US$150 million above last quarter. This was due to the net cash utilised as discussed above, offset by a positive currency translation effect of US$31 million due to a stronger US Dollar on our Euro denominated debt and a US$57 million conversion of debt to equity associated with Sappi Southern Africa's 5.25% senior unsecured convertible registered bonds. Liquidity comprised cash on hand of US$392 million and US$662 million from the committed unutilised revolving credit facilities (RCF) in South Africa and Europe.

Directorate

At the annual general meeting (AGM) on 07 February 2024, Sir Nigel Rudd retired as Independent Chairman and from all other board positions including his role as chairman of the Nomination and Governance Committee and member of the Human Resources and Compensation Committee. Mr Nkateko (Peter) Mageza retired as an Independent Non-executive Director and from all other board positions including his role as Chairman of the Audit and Risk Committee and member of the Human Resources and Compensation Committee.

Mr Nkululeko Sowazi was appointed by the board as Chairman effective from 08 February 2024. Mr Sowazi also assumes the chairmanship of the Nomination and Governance Committee and resigned his position as a member of the Audit and Risk Committee.

The appointment of Ms Zola Malinga as Chairman of the Audit and Risk Committee was approved by shareholders at the AGM on 07 February 2024.

On 08 May 2024, the board approved the appointments of Independent Non-executive Directors Mr James Lopez and Mr Louis von Zeuner as members of the Human Resources and Compensation Committee.

Post balance sheet events

On 10 April 2024 the Sappi Southern Africa SSA08 ZAR1.5 billion public bond was refinanced. The new ZAR1.5 billion bond was placed in three-year (ZAR600 million), five-year (ZAR600 million) and seven-year (ZAR300 million) tranches to spread the maturity profile of the Sappi Southern Africa debt maturities. The bond has two sustainability key performance indicators, making it the first Sappi bond with such targets and successfully leveraging the benefits of our sustainable finance framework.

Outlook

The third quarter is seasonally the weakest in terms of demand for our products. However, market sentiment is generally improving across all of our product segments and Sappi is well positioned with healthy cash reserves and liquidity to manage current market uncertainties.

Dissolving pulp demand remains healthy, buoyed by low inventory levels across the VSF value chain. VSF pricing has faced downward pressure in recent weeks, which could be a risk for DP pricing in the third quarter. However, the high operating rates through the VSF value chain and relatively constrained DP supply landscape continue to offer support for DP prices.

Graphic papers demand is expected to continue its slow recovery in the third quarter, but the market fundamentally remains in oversupply and industry operating rates remain below historical levels. Our European restructuring programme has significantly increased our capacity utilisation which, combined with the fixed cost savings, is expected to improve our competitive position. We continue to diligently adapt our product and market mix to match demand in North America ahead of the Somerset PM2 conversion and expansion in 2025. The sale of the Stockstadt Mill site is on track to be concluded in the third quarter.

Packaging and speciality paper markets continue to improve across all regions, and we expect good demand in North America and South Africa. Market conditions in Europe generally remain subdued due to the persistently weak economy and low consumer confidence.

Variable costs have reduced substantially from the peak in 2023 but have plateaued in the second quarter and remain above historical levels for many of our input categories. Globally, pulp market prices have started rising which could negatively impact the profitability of our paper businesses, particularly in Europe where proactive margin management will be required. In the third quarter, the Saiccor and Somerset Mills will take scheduled maintenance shuts, which will have an estimated impact of US$30 million on group profitability.

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 PM2 conversion and expansion project. We remain committed to disciplined capital allocation as we execute our strategy to reduce exposure to graphic papers markets while investing for growth in renewable packaging, dissolving pulp and biomaterials.

The plantation fair value price adjustment for the third quarter is expected to be slightly negative due to higher fuel costs and discount rates. Notwithstanding the gradual improvement in paper markets and taking into consideration the planned maintenance shuts in the quarter, we anticipate that EBITDA[2] (excluding the fair value price adjustment) for the third quarter of FY2024 will be below that of the second quarter but substantially above last year.

On behalf of the Board
S R Binnie
Director

G T Pearce
Director

09 May 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 09 May 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/sappiQ224.pdf

JSE Sponsor: RAND MERCHANT BANK (A division of FirstRand Bank Limited)