

# Q1 FY17 financial results

8 February 2017



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Chief Executive Officer  
Sappi Limited

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# Forward-looking statements and Regulation G

## 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 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.*

## Regulation G disclosure

*Certain non-GAAP financial information is contained in this presentation that management believe may be useful in comparing the company's operating results from period to period. Reconciliation's of certain of the non-GAAP measures to the corresponding GAAP measures can be found in the quarterly results booklet for the relevant period. These booklets are located in the 'Investors | Financial information' section of [www.sappi.com](http://www.sappi.com).*

# Summary



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# Highlights

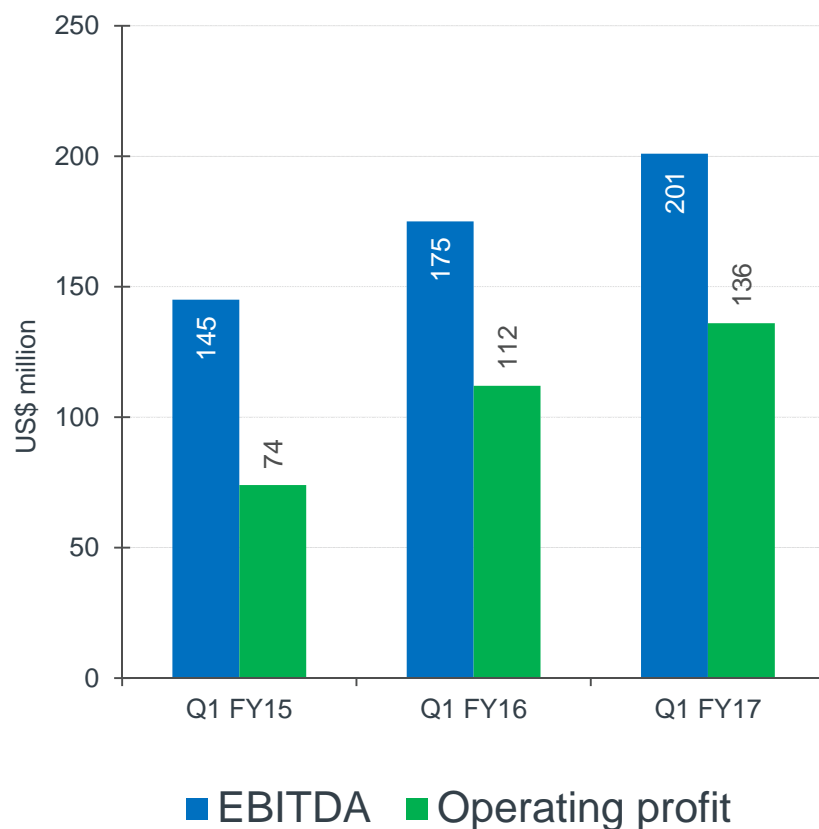
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Q1 FY17

- EBITDA ex-special items US\$201m (Q1 FY16 US\$175m)
- Profit for the period US\$90m (Q1 FY16 US\$75m)
- EPS ex-special items 16 US cents (Q1 FY16 13 US cents)
- Net debt US\$1,338m, down US\$396m year-on-year

# EBITDA and operating profit

Excluding special items\*



Key ratios

	Q1 FY15	Q1 FY16	Q1 FY17
Net Debt/ LTM EBITDA	3.1	2.6	1.7
Interest Cover	3.8	5.1	7.7
EBITDA %	10.5	13.6	15.4
ROCE %	9.7	16.2	19.5

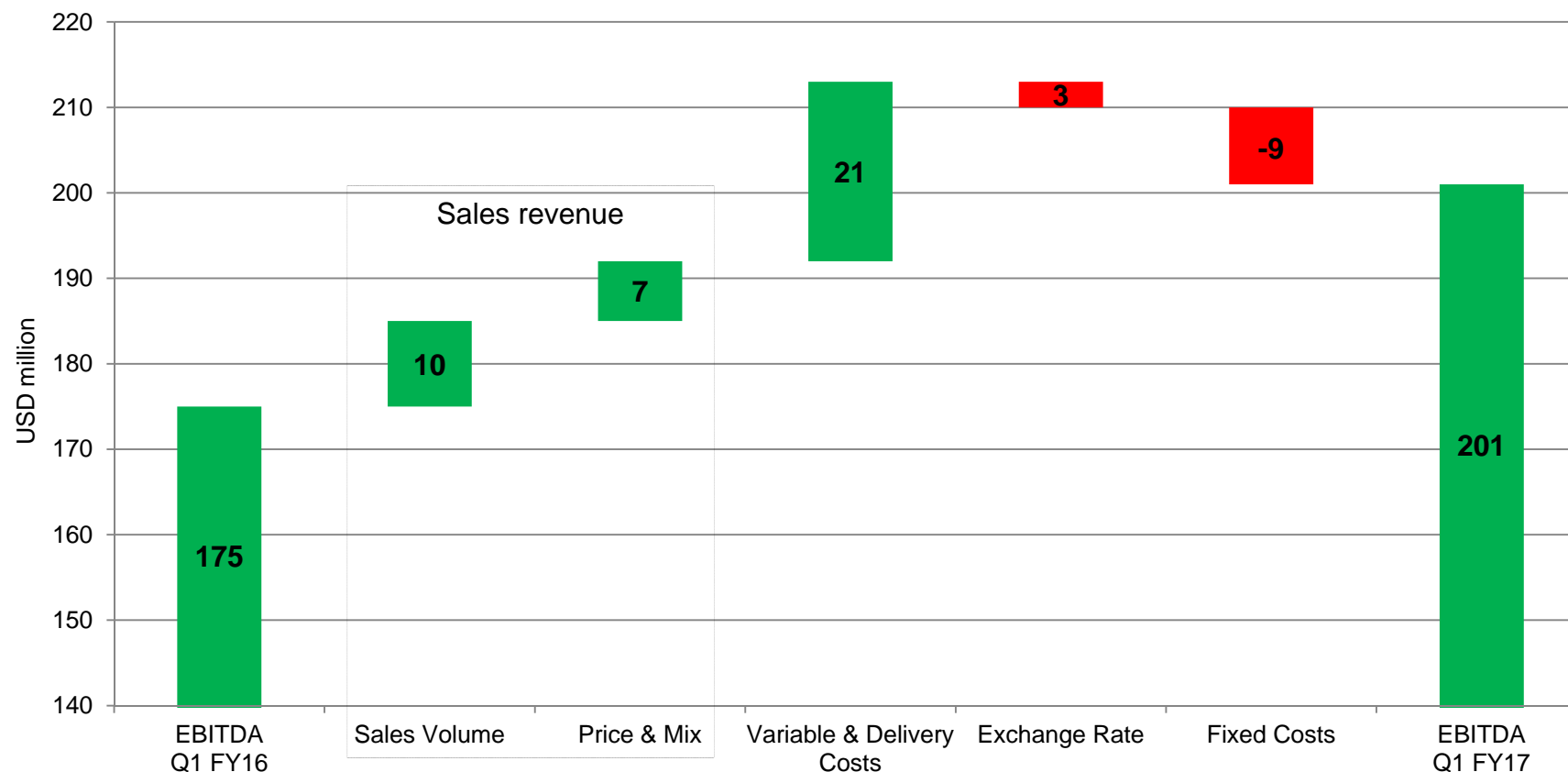


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\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 18 in our Q1 FY17 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

# EBITDA Bridge\*

Q1 FY16 to Q1 FY17



- All variances calculated excluding Sappi Forestry.
- “Exchange rate” reflects the impact of changes in the average rates of translation of foreign currency results.

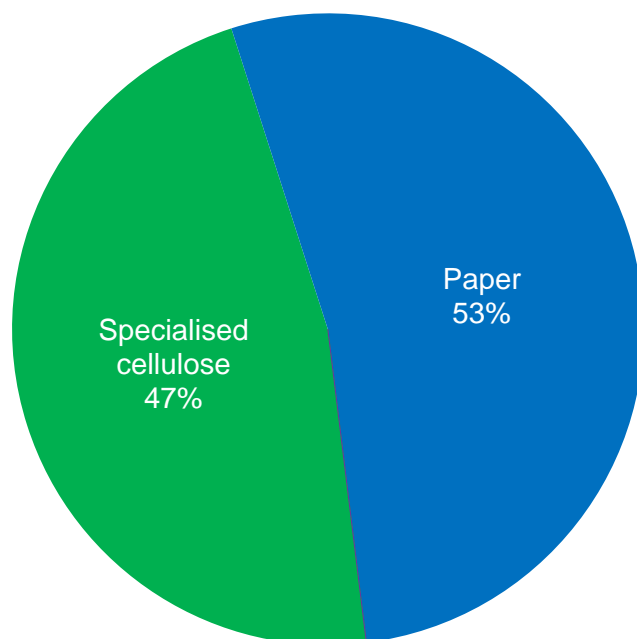
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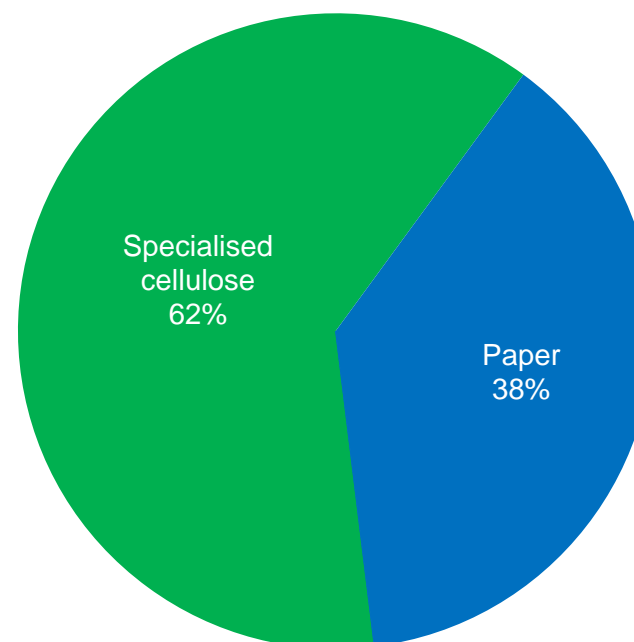
\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 18 in our Q1 FY17 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

# Product contribution split - LTM

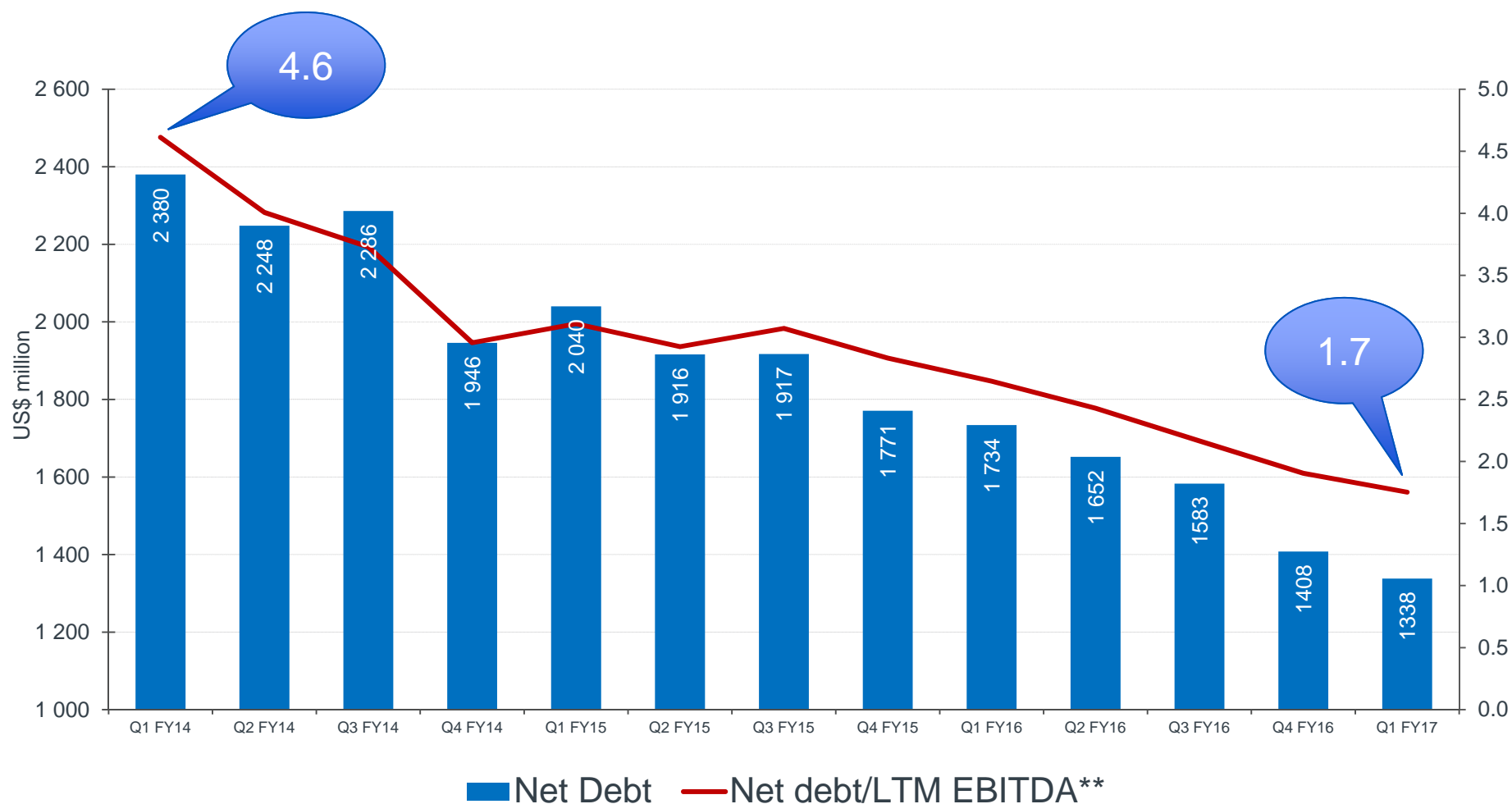
EBITDA excluding special items\*



Operating profit excluding special items

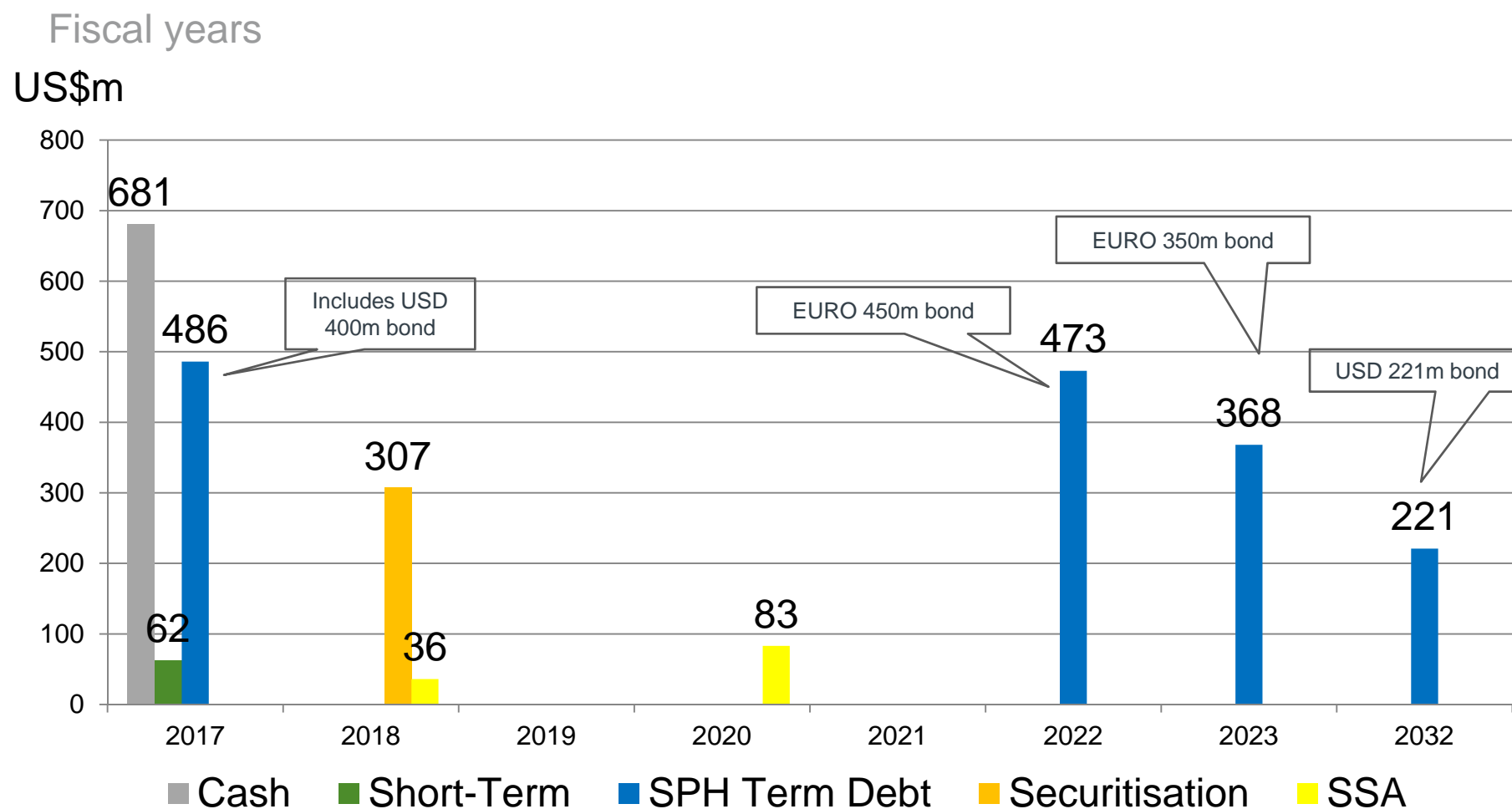


# Net debt/EBITDA development

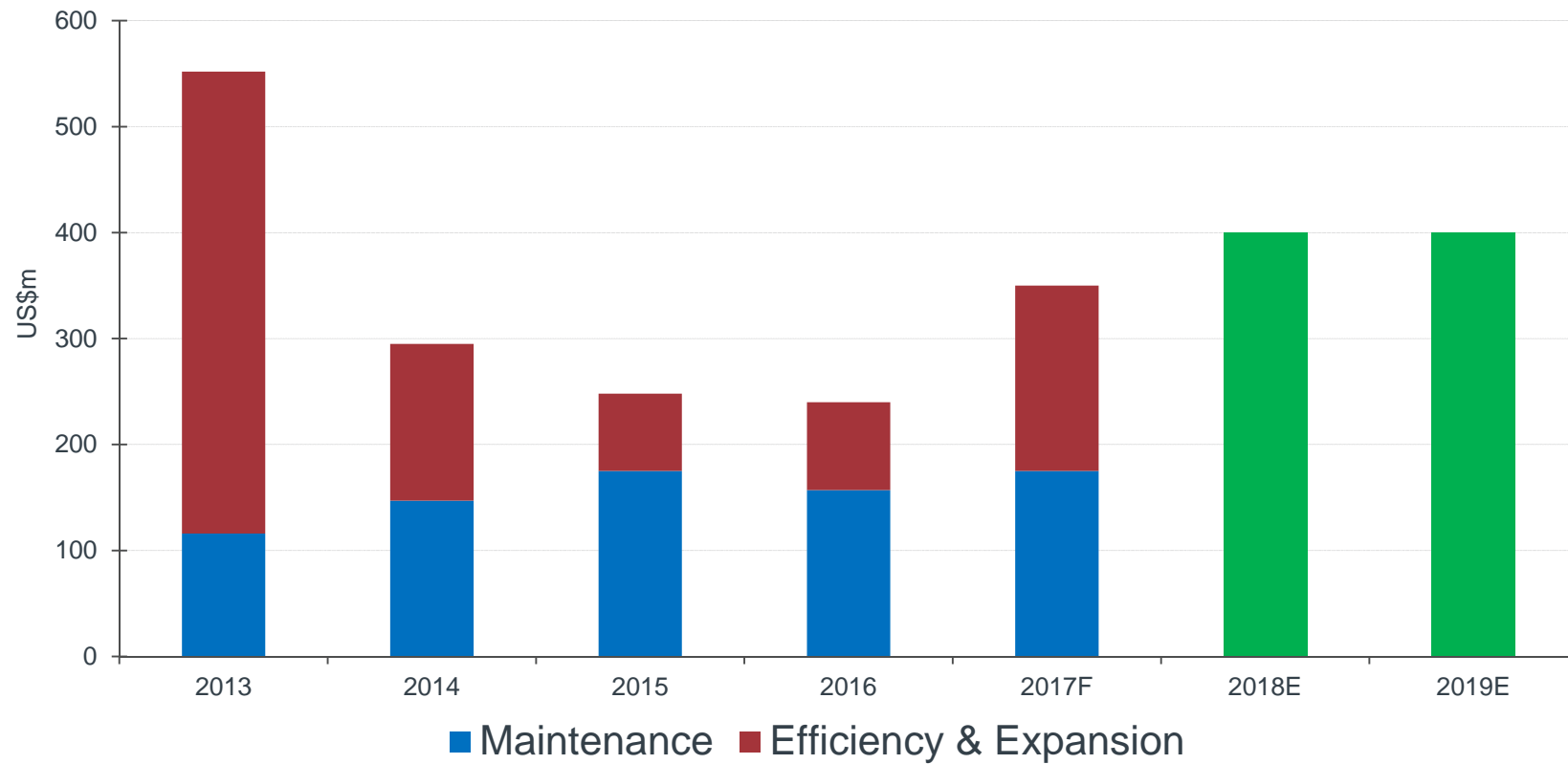




# Maturity profile



# Capex development



# Divisional overviews

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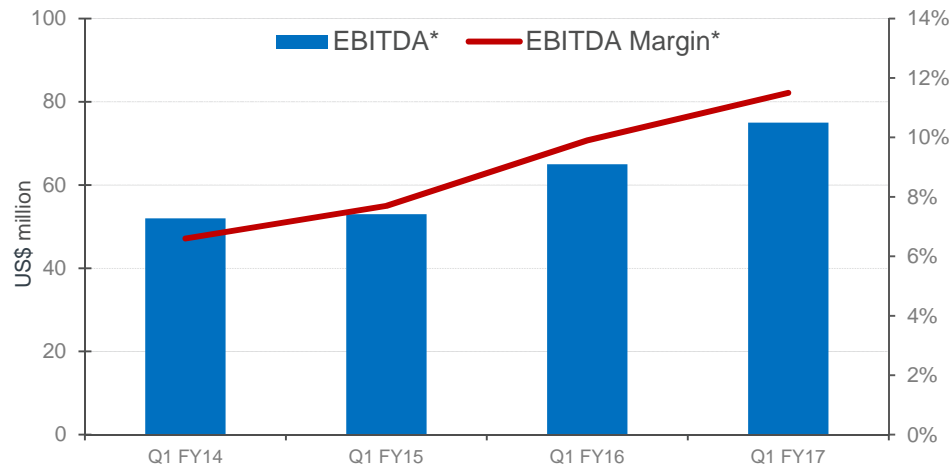


# Global paper market trends

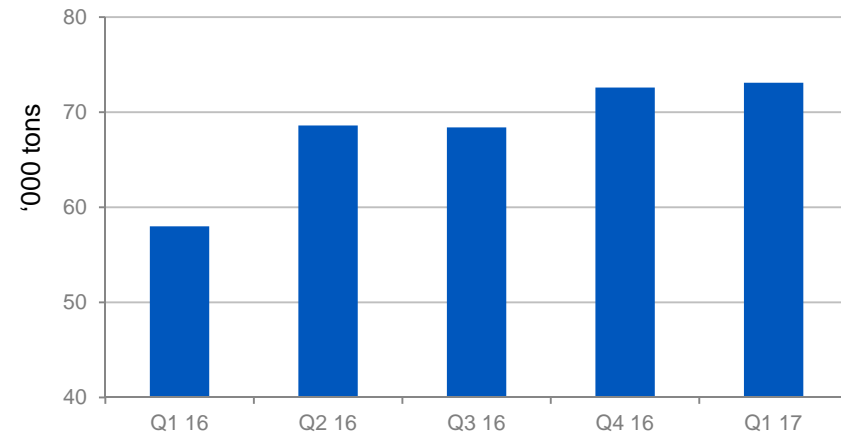
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- Supply and demand
  - Advertising spend continues to move away from printed media
  - Industry closures/conversions required – CM & SC closures announced
  - Speciality packaging paper demand continues to grow 1%-5%
- Selling prices and input costs
  - Selling prices have stabilised after declining for past year
  - Most variable costs still low, pulp costs rising.
- Strategy
  - Reduce or convert capacity in line with demand declines
  - Reduce fixed and variable costs

# Sappi Europe

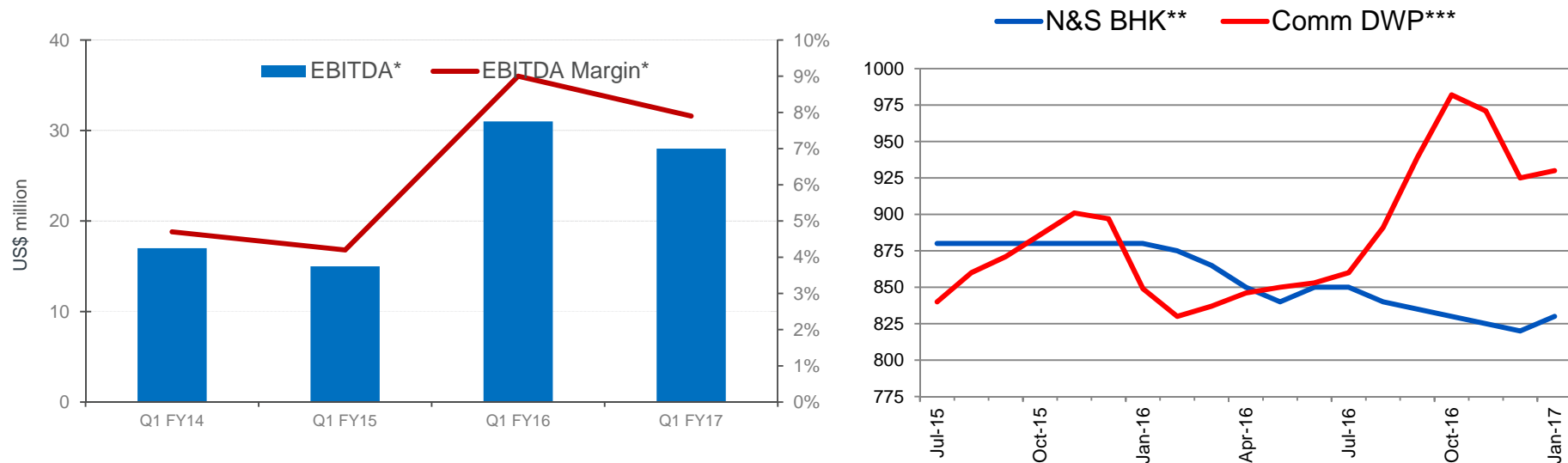


## Speciality Packaging Volumes



- Improved performance from volumes, cost savings, and the additional week.
- Speciality paper volumes up 26%, prices were stable.
- All major variable costs categories were down with the exception of latex. Prices for softwood pulp and energy started rising during quarter.

# Sappi North America



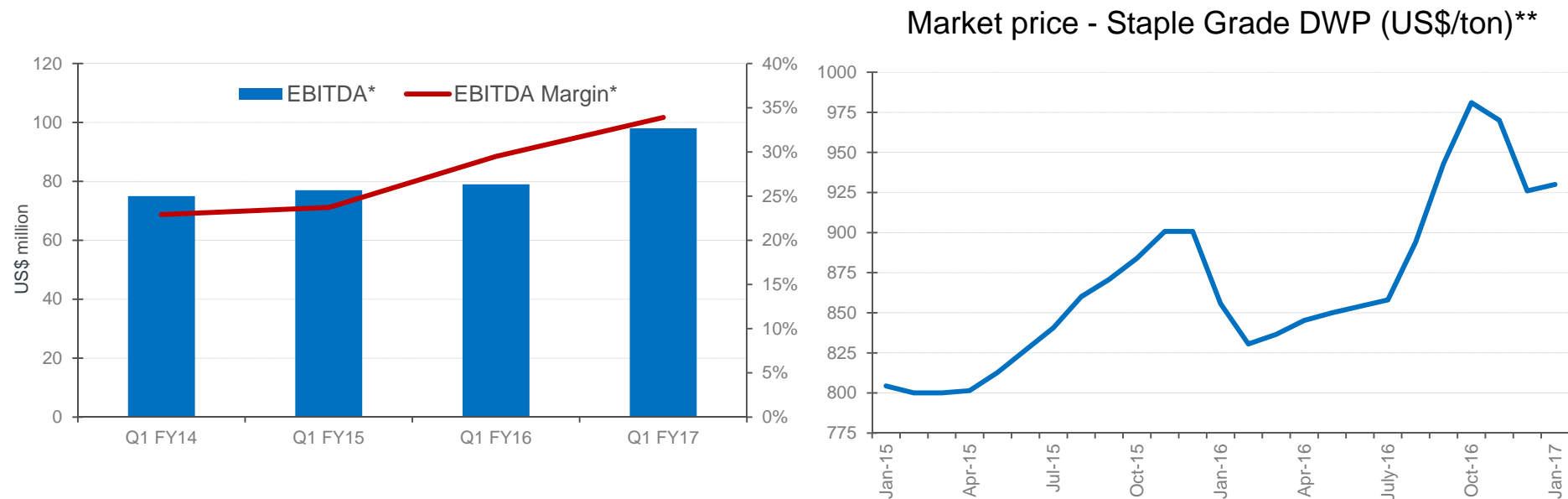
- Weaker year-on-year performance due to lower coated paper pricing, offset by strong DWP volumes and prices.
- Cloquet Mill optimised production to benefit from BHK and DWP pricing spread.
- Release business continues to deal with weak conditions in Chinese garment industry
- Ongoing procurement and efficiency initiatives along with lower market prices for wood and paper pulp led to lower average variable costs for the quarter.

# Global DWP market trends

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- Supply and demand
  - Continued strong demand from new viscose capacity
  - Constrained Cotton Linter Pulp supply – tightening DWP market
  - New DWP capacity has been delayed
- Selling prices and input costs
  - Spot pricing peaked in October, declining through to January
  - Recent spot price increases alongside cotton
  - Chemical costs rising, fibre steady
- Strategy
  - Maintain low-cost position
  - Continue working with customers to support common growth
  - Debottlenecking SA mills – to add up to 100kt in next two years
  - Investigate adjacent end-uses

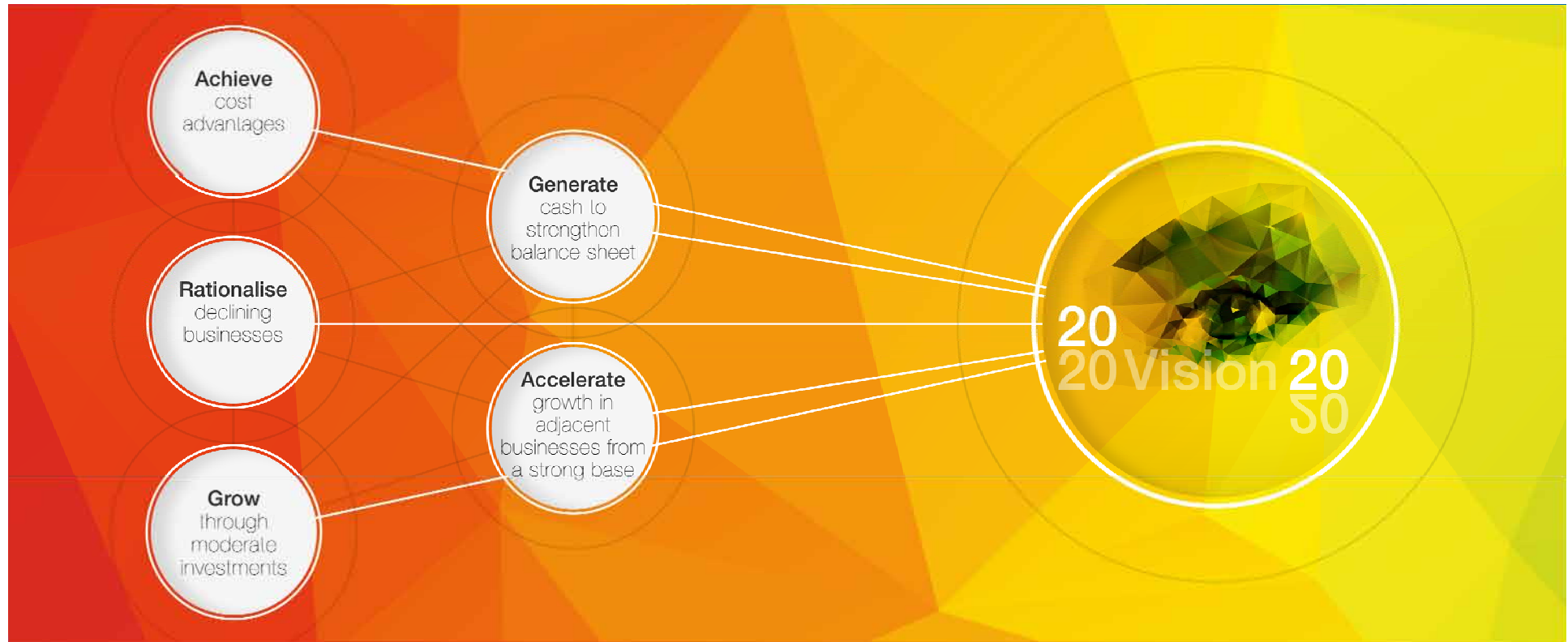
# Sappi Southern Africa



- Enhanced year-on-year performance due to higher prices for DWP which more than offset increased variable costs and the stronger ZAR/US\$ exchange rate.
- Tube leaks at Saiccor during the quarter, operations stabilised, to be remedied in March
- Lower than expected demand for containerboard and tissue papers, outlook is positive



# Strategic focus



# Focus areas

## Achieve cost advantages

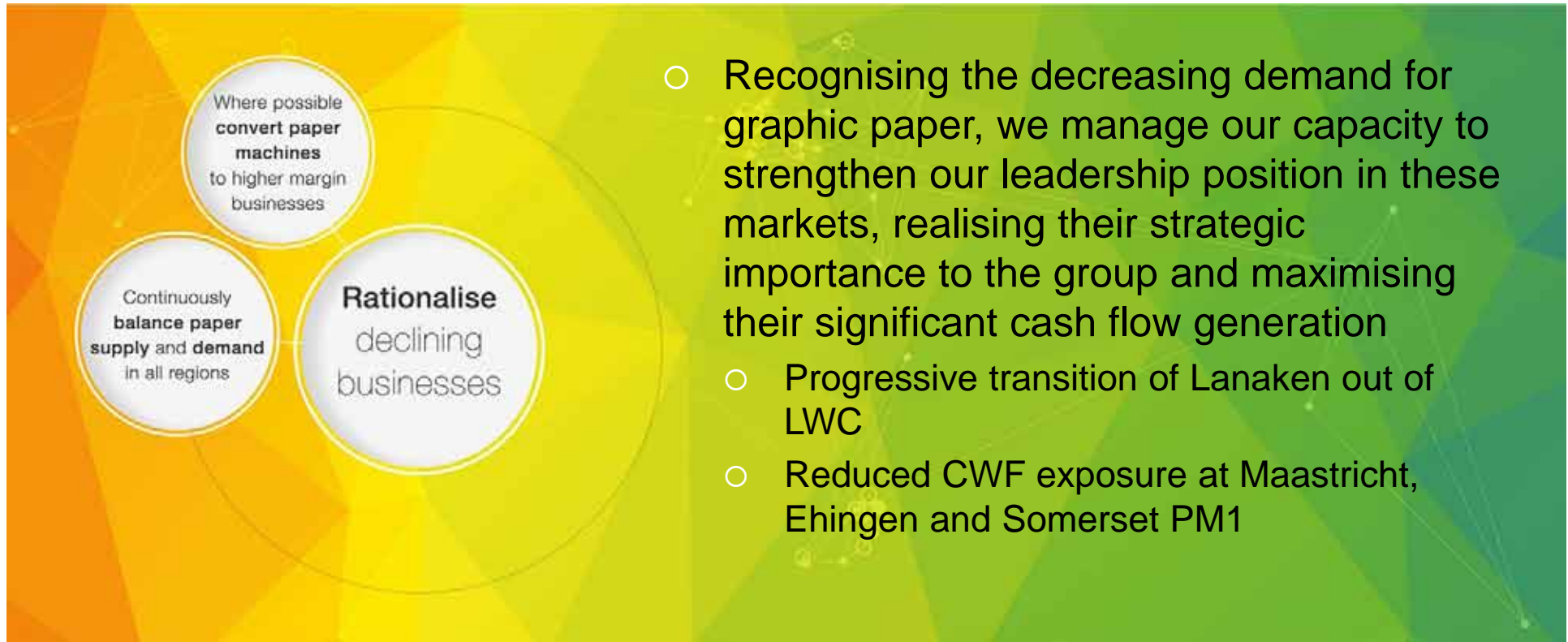


- We work to lower fixed and variable costs, increase cost efficiencies and invest for cost advantages
- Saiccor and Tugela turbines – FY2016/17
- Group procurement initiatives >\$100m annually by 2020 – US\$63m by end 2017
- Ongoing continuous improvement across all mills
- US\$25m investment in Somerset Woodyard



# Focus areas

Rationalise and optimise declining businesses



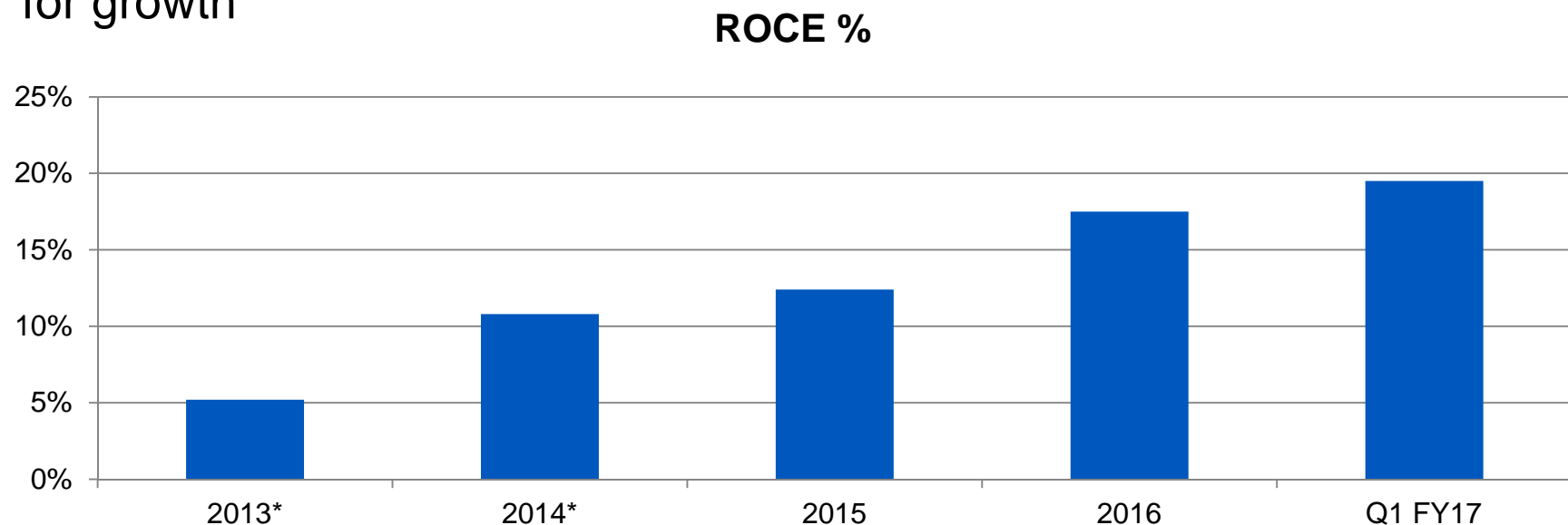
# Focus areas

Grow through moderate investments



# Growth through moderate investments

- Moderate investments in cost efficiency and energy generation projects have delivered good returns to date
- We are now moving into the next phase of our strategy via investments for growth



\* Sappi begins/completes investments in Specialised Cellulose





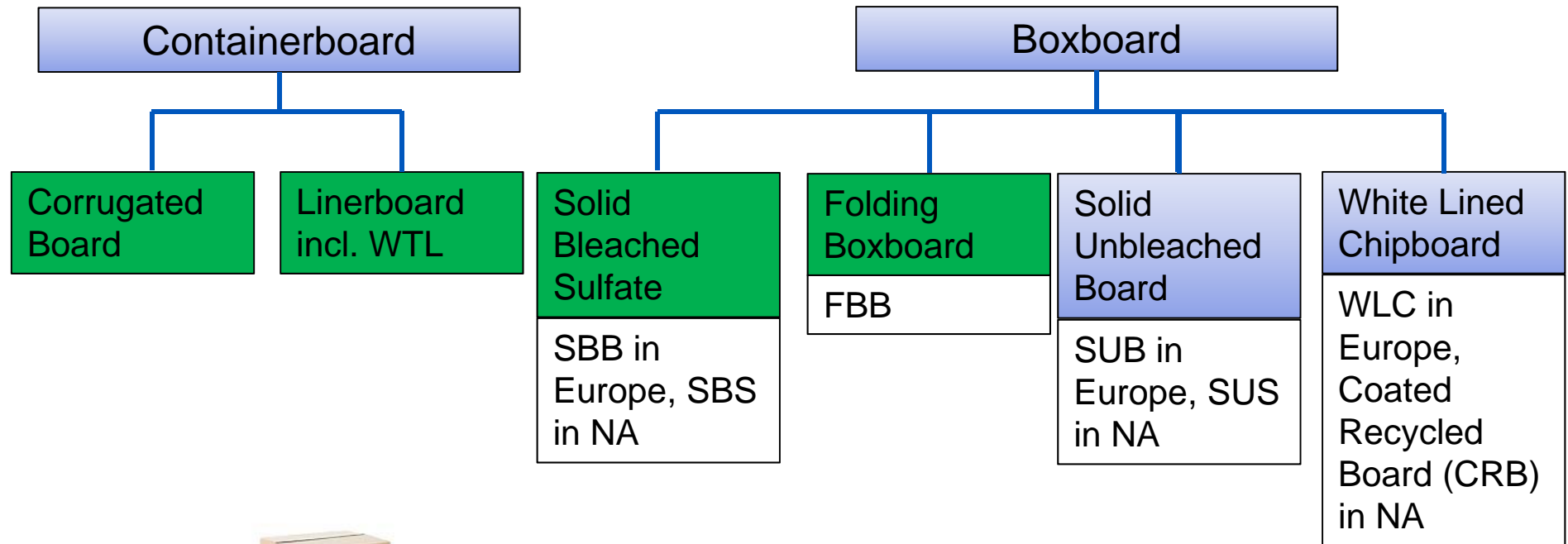
# Growth through moderate investments

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Investing in speciality packaging businesses in Europe and North America

- \$140m at Maastricht, Eningen, Alfeld and Lanaken
  - Maastricht, Eningen and Alfeld to expand offering
  - Investments to be made over a 3-year period
  - Additional 200kt/annum of SBB,FBB and WTL sales within 3 years
  - Lanaken to pick up displaced CWF volumes
- \$165m at Somerset
  - Enable PM1 to make packaging grades
  - Expect to complete in Q3 2018
  - 3 year ramp up of packaging paper grades to 350kt

# Paperboard Market



# Mill Summary – Sappi Europe

## Today

	Alfeld	Ehingen	Gratkorn	Kirkniemi	Lanaken PM7	Lanaken PM8	Maastricht	Stockstadt
HW Packaging								
LW Packaging								
HW Graphics								
MW Graphics								
LW Graphics								
UCWF								
Mechanical								

Graphics



Specialities

## By 2020

	Alfeld	Ehingen	Gratkorn	Kirkniemi	Lanaken PM7	Lanaken PM8	Maastricht	Stockstadt
HW Packaging								
LW Packaging								
HW Graphics								
MW Graphics								
LW Graphics								
UCWF								
Mechanical								

Alfeld: heavy/light weight packaging, silicone base papers and barrier papers

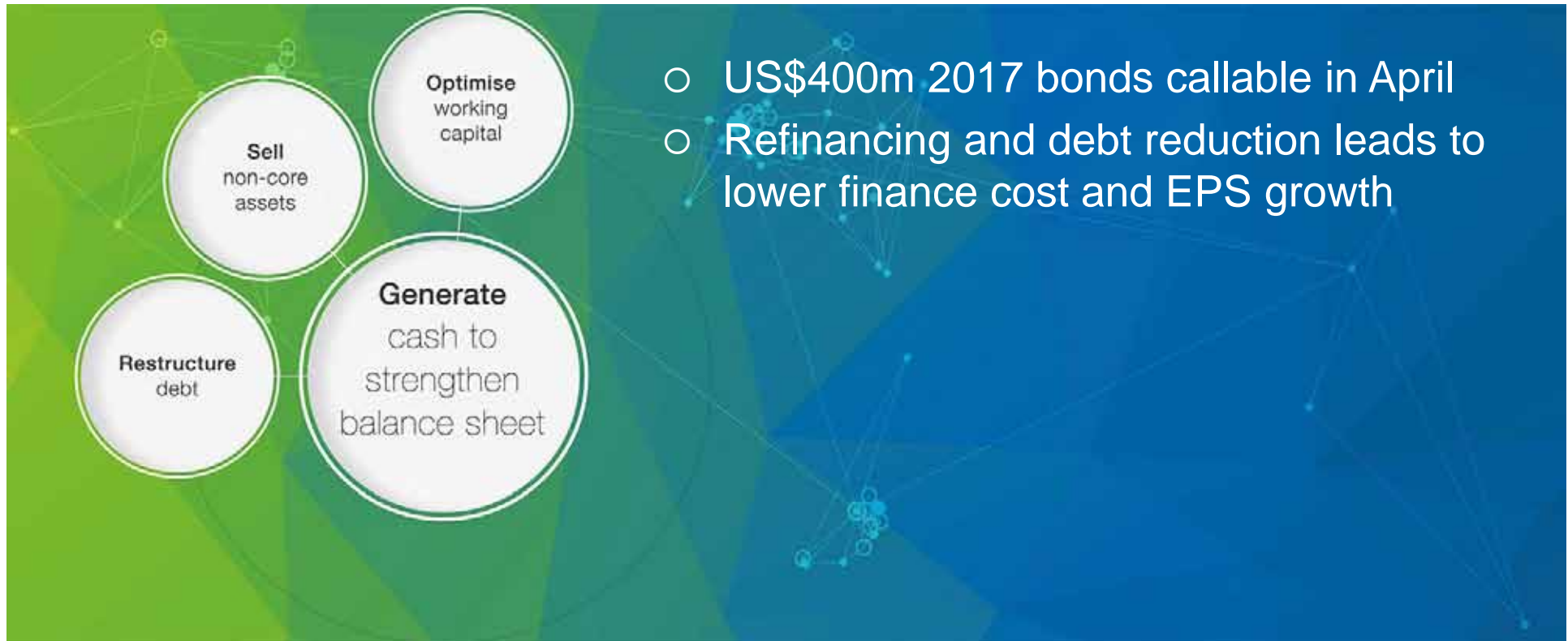
Maastricht: heavy weight packaging, barrier boards and board weight graphics (=>300 gsm)

Ehingen: coated woodfree and white top liner



# Focus areas

Generate cash to strengthen the balance sheet



# Focus areas

Accelerate growth in adjacent businesses from a strong base



- We will continue our focus on having a cleaner, stronger balance sheet so that we can then accelerate our growth in adjacent businesses
  - Speciality packaging paper
  - Biomaterials, biochemicals – lignins, sugars
  - Expanded DWP portfolio – nano-cellulose, other speciality grades



# Outlook



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# Outlook

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- DWP demand remains favourable; pricing recovering in 2<sup>nd</sup> quarter.
- Demand for graphic paper remains weak, prices have stabilised – further gains from efficiency and procurement programs.
- FY17 capex circa US\$350m aimed at speciality packaging projects in EU & NA as well as debottlenecking DWP production at Saiccor and Ngodwana.
- Based on current market conditions, we expect Q2 operating performance to be in-line with that of Q2 2016. Further ZAR strength could result in a weaker performance.
- We expect to further reduce net debt and repay US\$400m 2017 bonds.



# Thank you –



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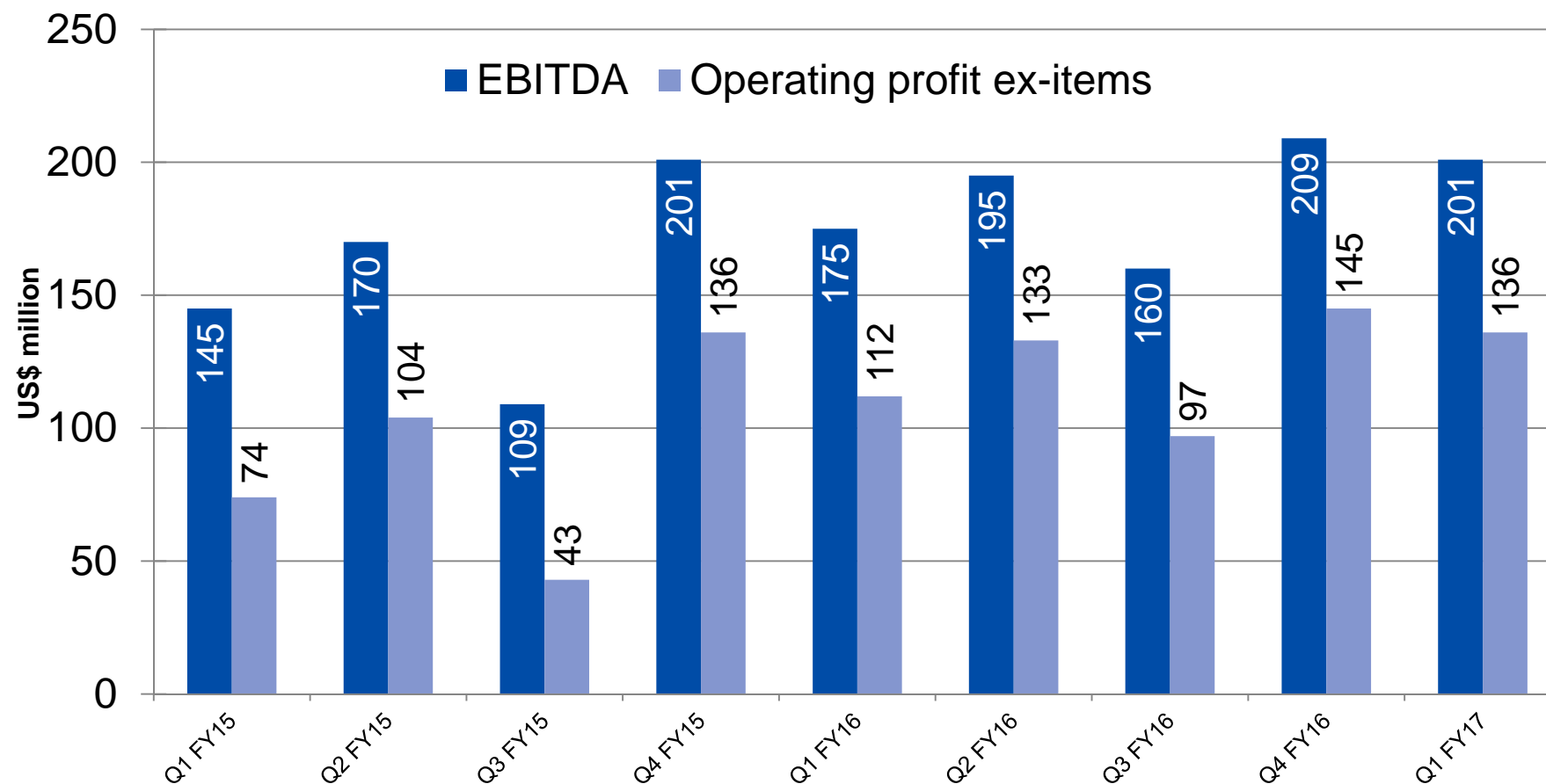
# Supplementary information



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# EBITDA and operating profit

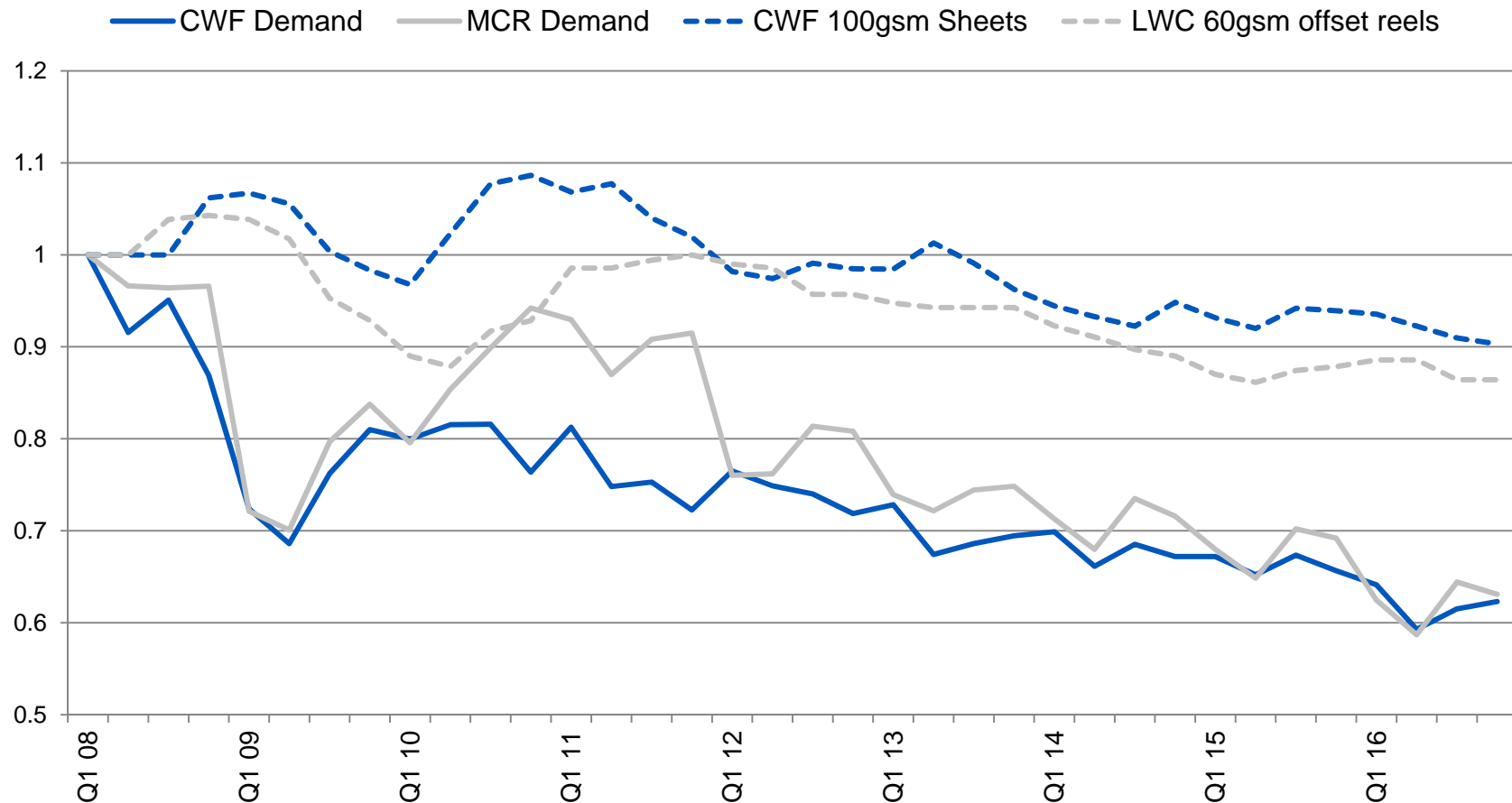
Excluding special items\*





# Coated paper deliveries and prices

## Western Europe





# Sappi Europe

	Q1 FY17	Q4 FY16	Q1 FY16
Tons sold ('000)	867	822	836
Sales (EURm)	602	579	601
Price/Ton (EUR)	694	704	719
Cost/Ton* (EUR)	648	667	684
<b>Operating profit excluding special items** (EURm)</b>	<b>40</b>	<b>31</b>	<b>29</b>

# Sappi Packaging and Speciality Papers

Global production sites

**Sappi Alfeld (Germany)**



Flexible Packaging, Label, SBB Board, Topliner and Release Liner

**Sappi Maastricht (Netherlands)**



Folding Box Board - atelier™

**Sappi Eching (Germany)**



Topleveler - Fusion®

**Sappi Cloquet (USA)**



Label Paper – LusterCote®

**Sappi Somerset (USA)**



Label Paper – LusterCote® and Flex. Pack. Paper - LusterPrint®

**Sappi Westbrook (USA)**



Release Paper – Ultracast® and different classic brands

**Sappi Tugela (South Africa)**



Liner – Ultratest and Fluting – Ultraflute™

**Sappi Ngodwana (South Africa)**



Liner – Kraftpride™



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# Markets and Growth rates

## Global Market size – Speciality packaging



### Flexible Packaging and Label Papers

- C1S papers
- 1.2 mtons
- Growth: 2-3 % p.a.



### Release Liner

- CCK graphic arts
- 300 ktons
- Growth: 6 % p.a.



### Rigid Packaging

- SBS printing and converting
- 4.7 mtons
- Growth: 2 % p.a.



### Containerboard

- Coated White Topliner
- 1 mtons
- Growth: 1-2 % p.a.



### Functional Papers

- Barrier and grease resistant papers
- Virtually unlimited

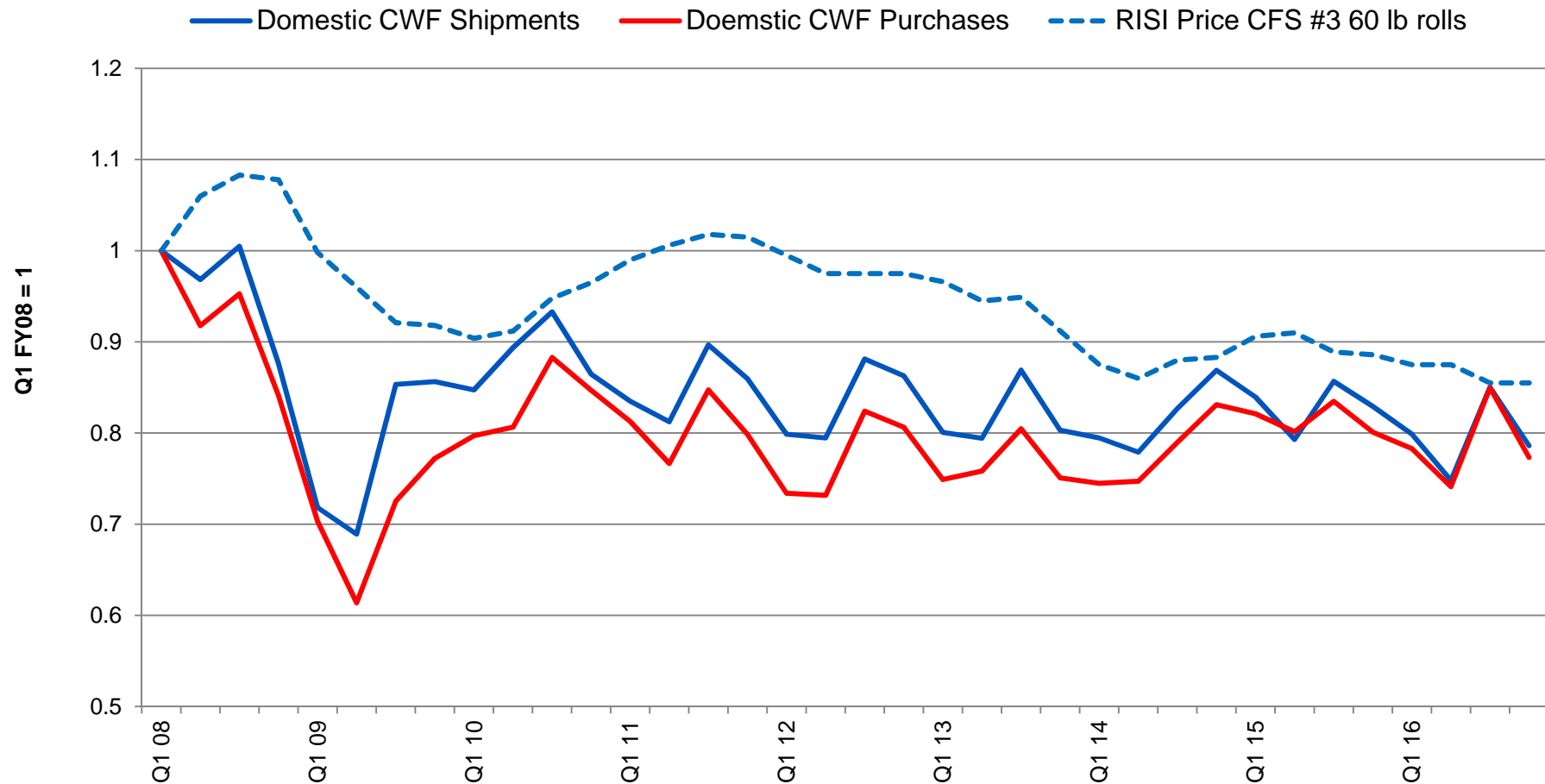
Source for growth rates: AWA, Pira and Risi

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# Coated paper prices and shipments

## United States

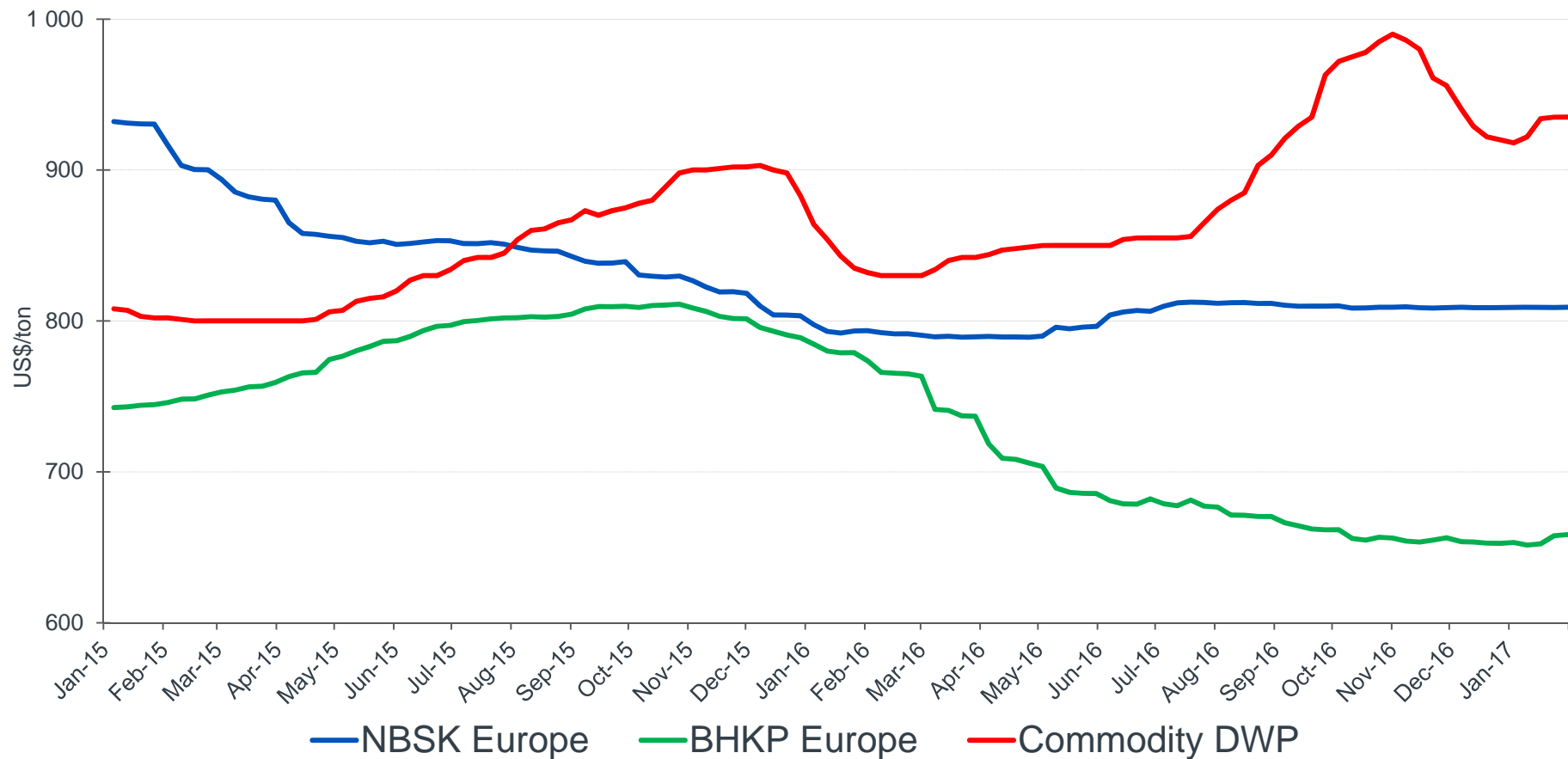


- US industry purchases defined as industry shipments, plus imports, less exports
- Source: AF&PA and RISI indexed to calendar Q1 FY08

# Sappi North America

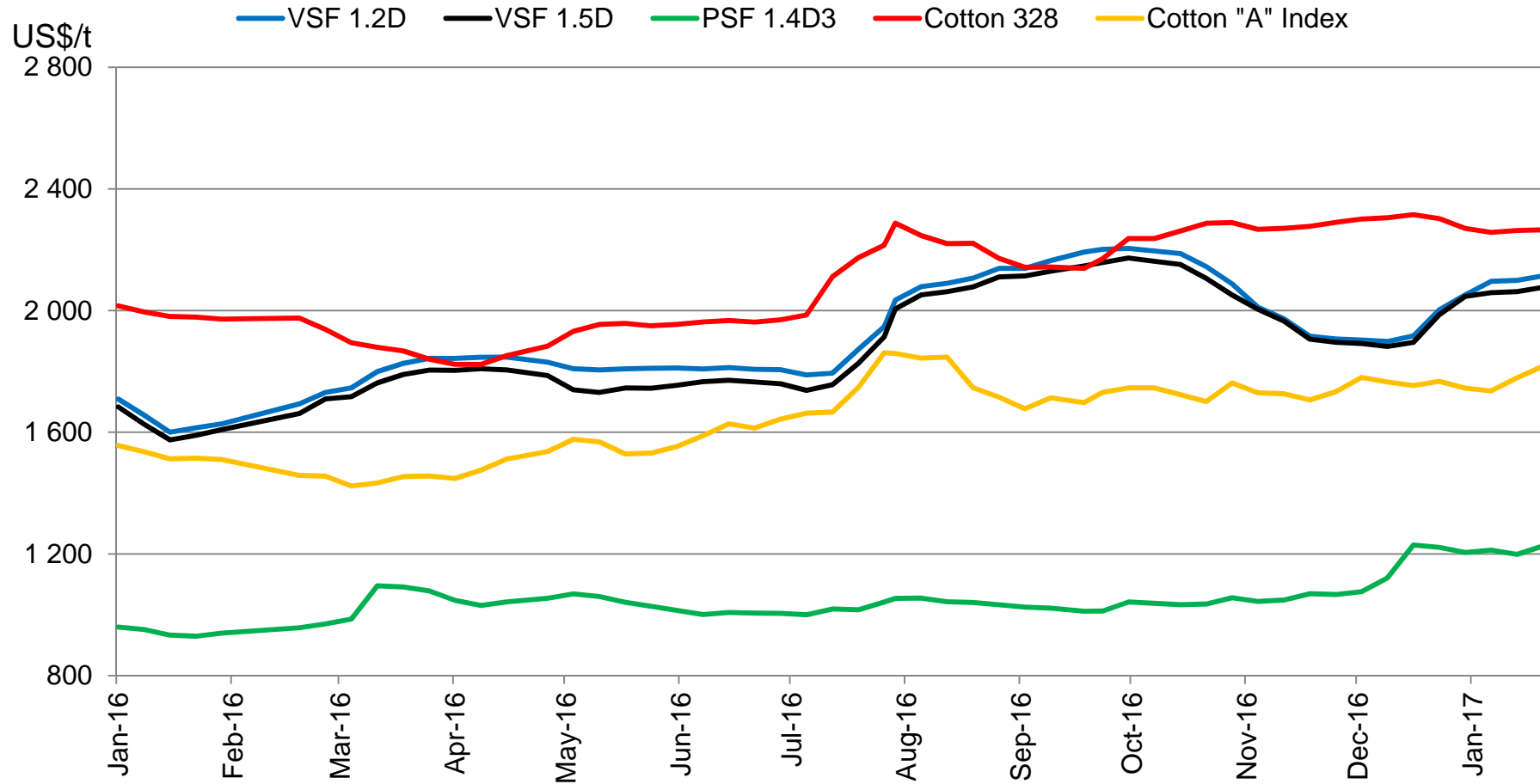
	Q1 FY17	Q4 FY16	Q1 FY16
Tons sold ('000)	353	363	330
Sales (US\$m)	354	360	343
Price/Ton (US\$)	1,003	992	1,039
Cost/Ton* (US\$)	980	923	1,000
<b>Operating profit excluding special items** (US\$m)</b>	<b>8</b>	<b>25</b>	<b>13</b>

# Pulp prices\*



• Source: FOEX, CCF group

# Textile Fibre Prices



# Sappi South Africa

Excluding Sappi Forests

	Q1 FY17	Q4 FY16	Q1 FY16
Tons sold ('000)	364	429	386
Sales (ZARm)	4,022	4,532	3,794
Price/Ton (ZAR)	11,049	10,564	9,829
Cost/Ton* (ZAR)	7,838	7,636	7,370
<b>Operating profit excluding special items** (ZARm)</b>	<b>1,169</b>	<b>1,256</b>	<b>949</b>



# Cash flow

US\$m	Q1 FY17	Q4 FY16	Q1 FY16
<b>Cash generated from operations</b>	<b>202</b>	<b>191</b>	<b>171</b>
Movement in working capital	(97)	70	(100)
Net finance costs paid	(17)	(4)	(36)
Taxation paid	(34)	(2)	(18)
<b>Cash generated from operating activities</b>	<b>54</b>	<b>255</b>	<b>17</b>
<b>Cash utilised in investing activities</b>	<b>(37)</b>	<b>(87)</b>	<b>2</b>
Capital expenditure	(37)	(97)	(40)
Net proceeds on disposal of assets	2	5	41
Other movements	(2)	5	1
<b>Net cash generated (utilised)</b>	<b>17</b>	<b>168</b>	<b>19</b>

# EBITDA and Operating Profit

Excluding special items reconciliation to reported operating profit

US\$m	Q1 FY17	Q4 FY16	Q1 FY16
<b>EBITDA excluding special items*</b>	<b>201</b>	<b>209</b>	<b>175</b>
Depreciation and amortisation	(65)	(64)	(63)
<b>Operating profit excluding special items*</b>	<b>136</b>	<b>145</b>	<b>112</b>
<b>Special Items* - gains (losses)</b>	<b>7</b>	<b>25</b>	<b>11</b>
Plantation price fair value adjustment	11	24	2
Net restructuring provisions	-	-	(3)
Profit on disposal of asset held for sale and other assets	-	(1)	15
Asset Impairment	-	(2)	-
Employee benefit liability settlement	-	8	-
Fire, flood, storm and other events	(4)	(4)	(3)
<b>Segment operating profit</b>	<b>143</b>	<b>170</b>	<b>123</b>

# Thank you



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