

Q1 FY20 financial results

5 Feb 2020



Steve Binnie

Chief Executive Officer
Sappi Limited

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, and*
- *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 available on our website: <https://www.sappi.com/quarterly-reports>.

Highlights – Q1 FY20

Excluding special items*

EBITDA* \$139m

Profit for the period
US\$24 million

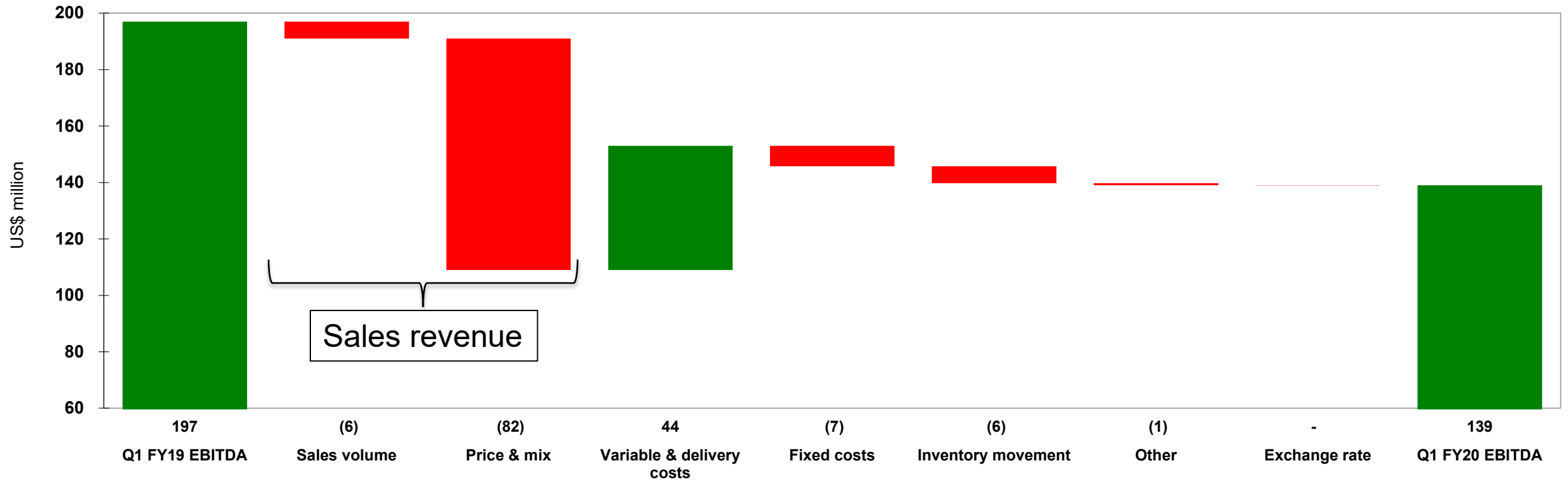
EPS* 6 US cents

- Historically low DWP prices significantly impacting profitability
- Packaging and speciality segment margins higher as pricing and mix improve – SA containerboard experiencing depressed demand
- Market share gains in coated paper grades
- Matane integration on track

* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page XX in our Q1 FY20 financial results booklet (available on www.sappi.com) for a definition of special items.

EBITDA* reconciliation

Q1 FY20 to Q1 FY19



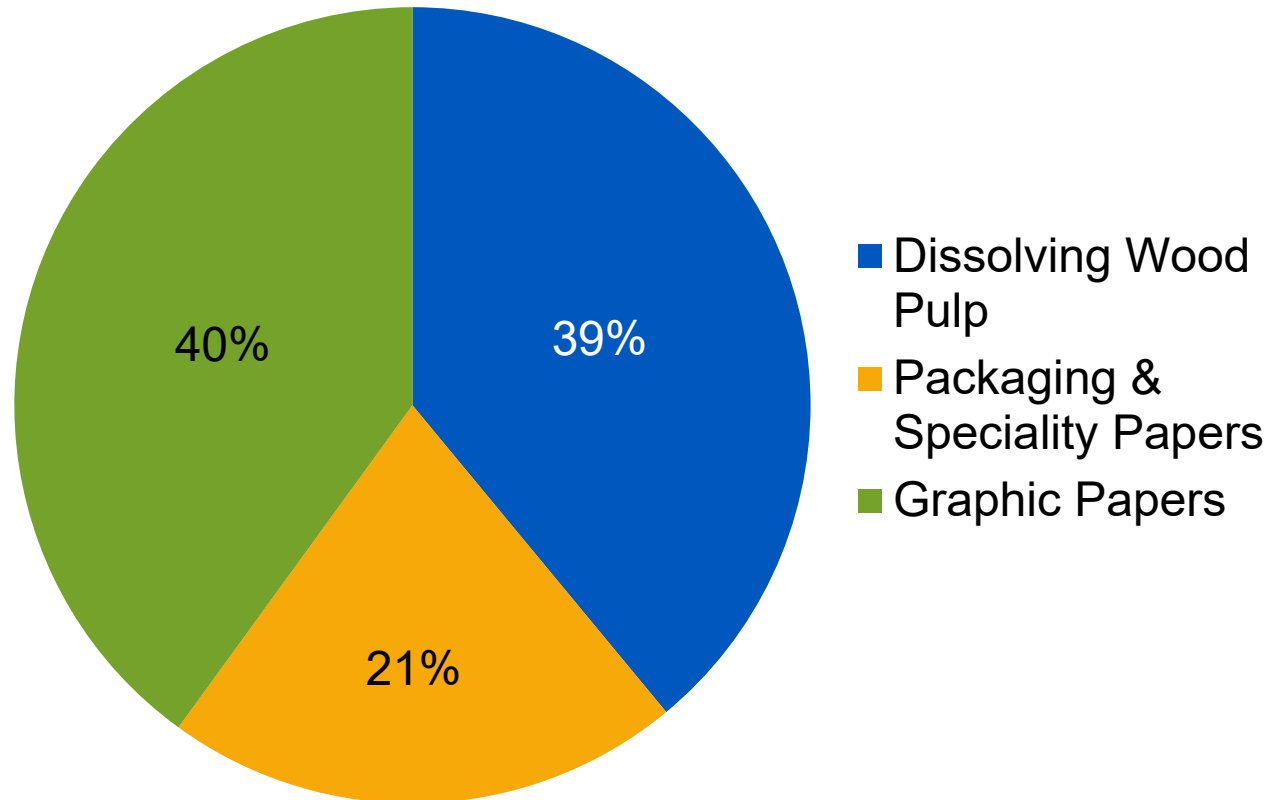
Notes:

1. All variances were calculated excluding Sappi Forestry.
2. "Currency conversion" reflects translation and transactional effect on consolidation.
3. EBITDA* = EBITDA excluding special items

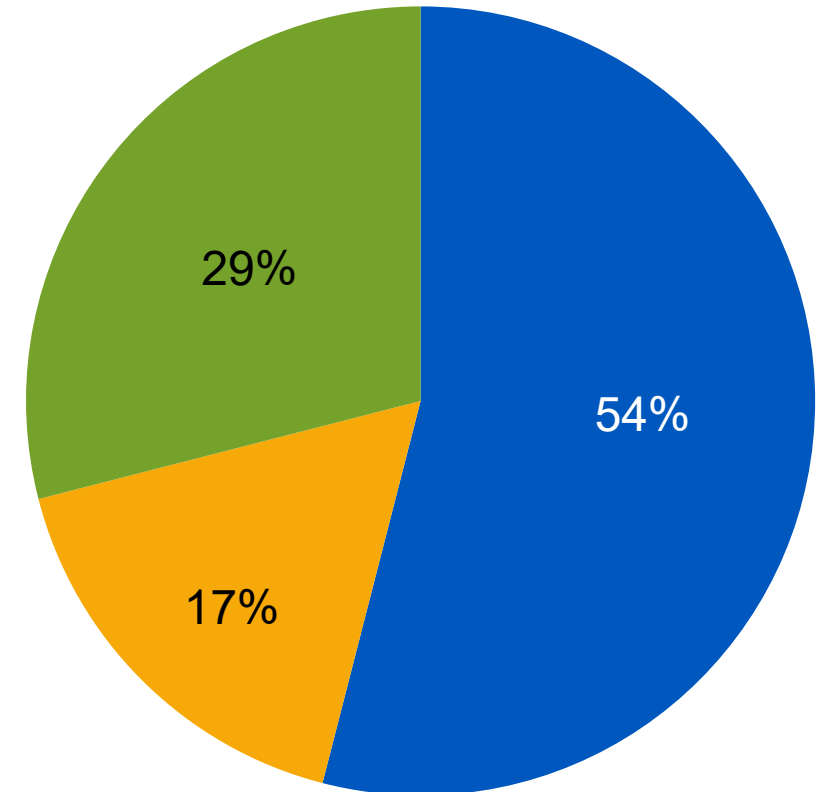
	Dec	
	2020	2019
Exchange rates:		
Average rate for the Quarter: US\$1 = ZAR	14.7241	14.3127
Average rate for the Quarter: €1 = US\$	1.1066	1.1409

Product contribution split – LTM

EBITDA excluding special items

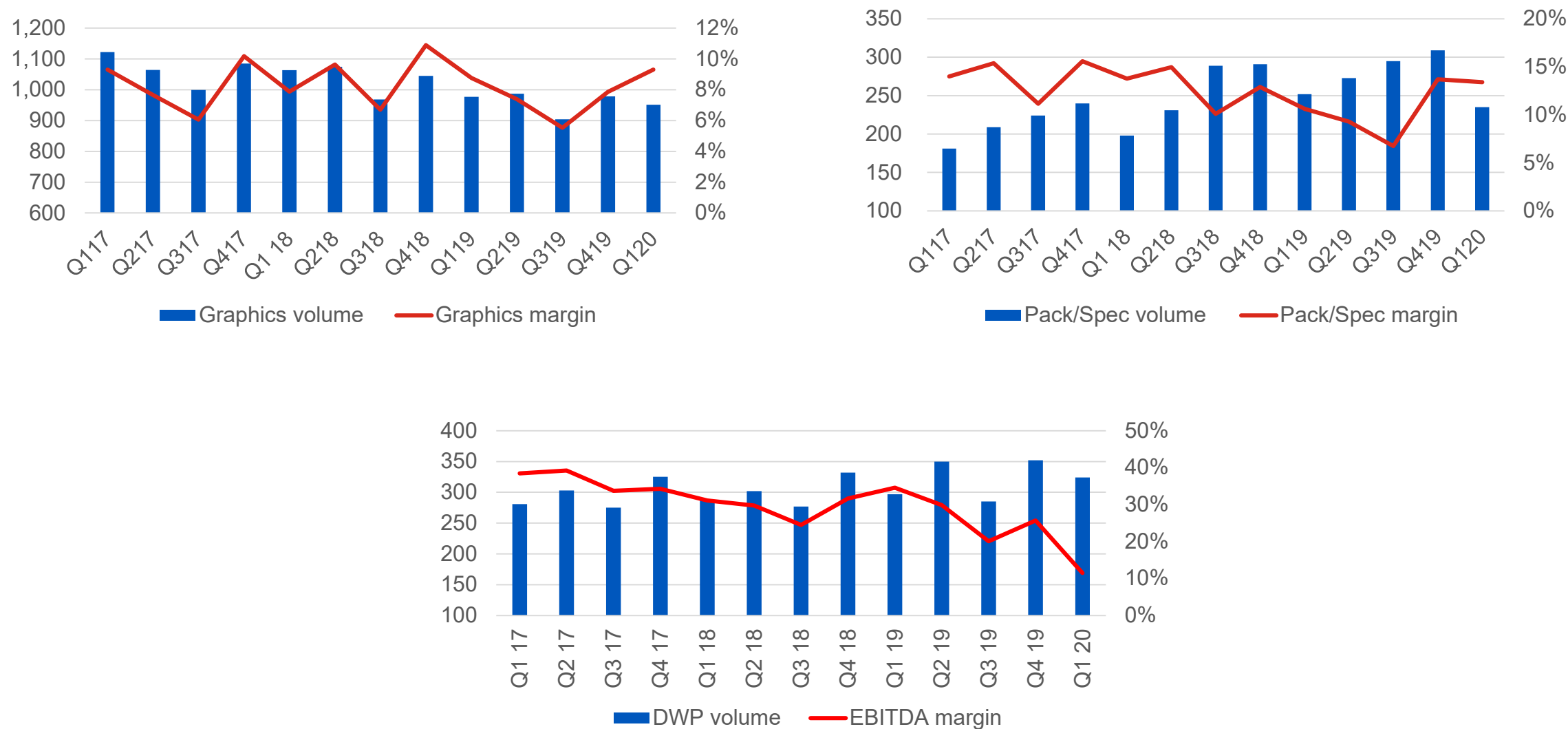


Operating profit excluding special items



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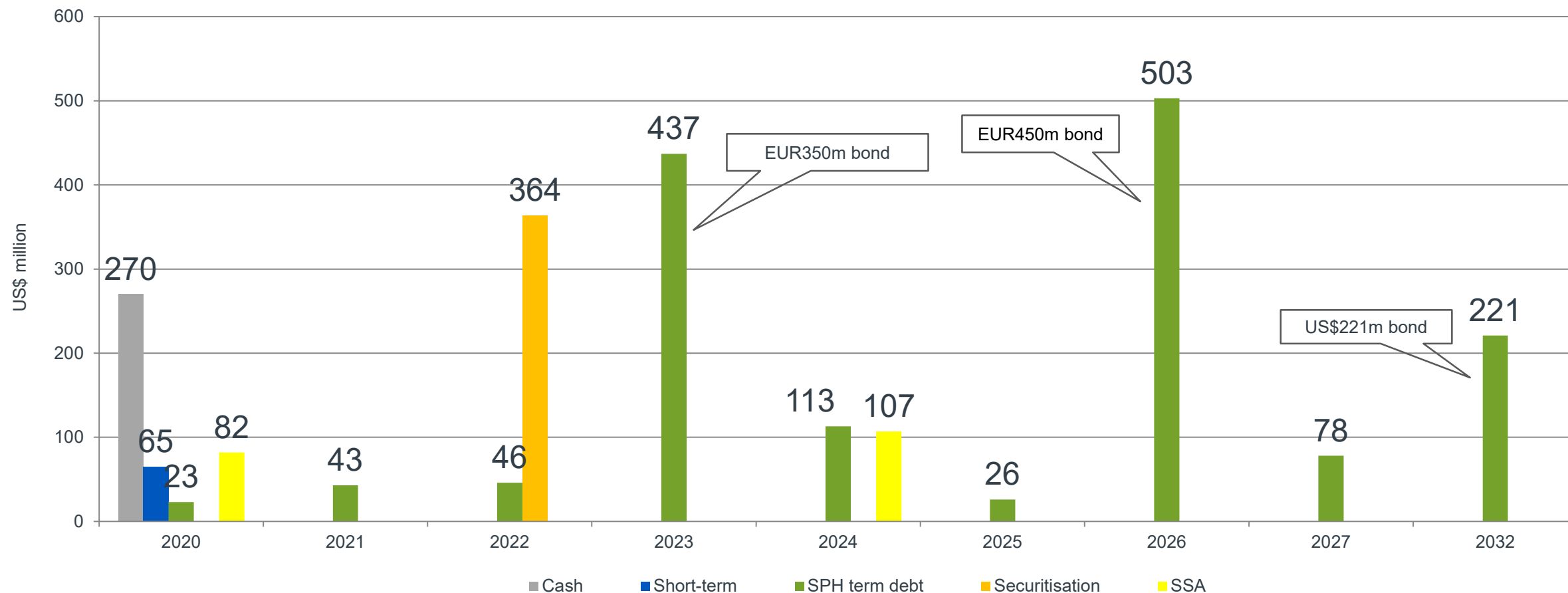
Segment volume & EBITDA* margin



EBITDA* = EBITDA excluding special items

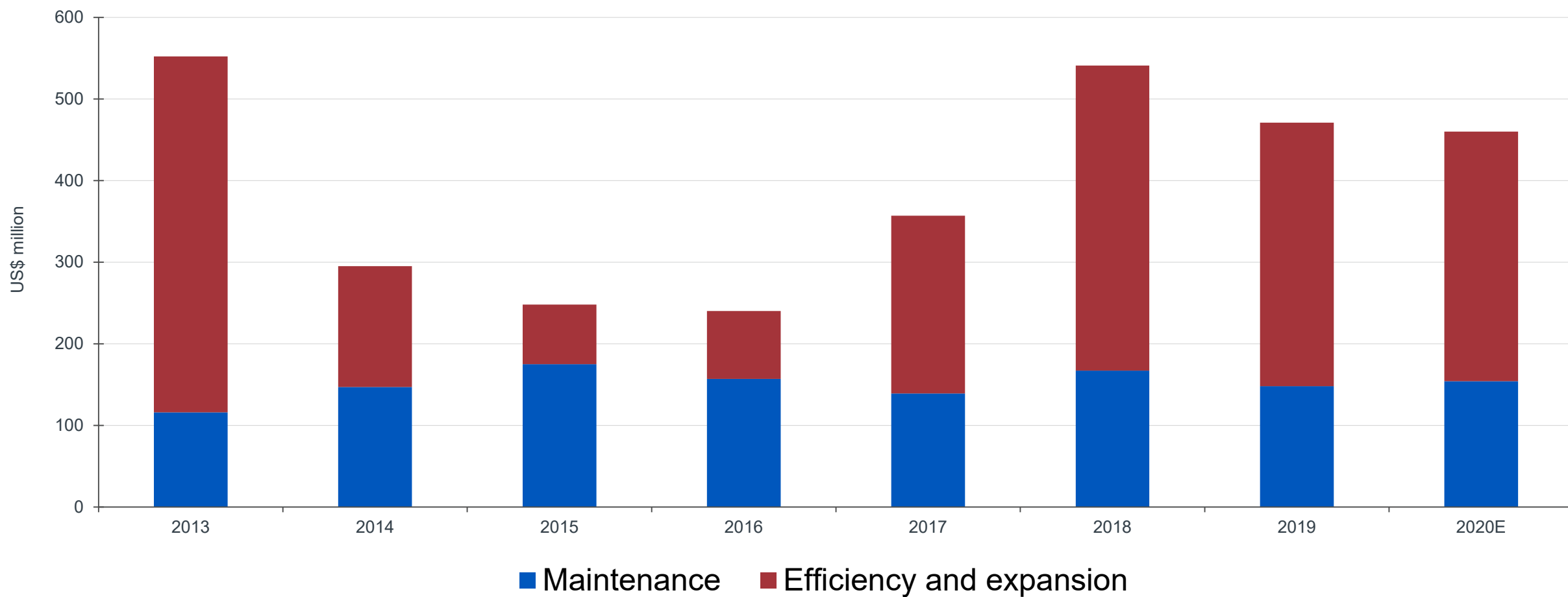
Maturity profile*

Fiscal years



*Graph excludes US\$92.4 million in IFRS16 leases – Average maturity of 4 years

Capex



Market and Segmental overview



Sappi Europe

Sales Tons -2%
year-on-year

Sales -4%
year-on-year

EBITDA* +5%
year-on-year

- Market share gains in CWF offsetting weak market demand
- 28kt CM downtime required, US\$6.5m impact – ramp up of Lanaken on CWF will assist going forward
- Packaging and specialities volumes growing in all major product categories
- Variable costs declining as pulp, chemicals and energy prices move downward.

* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q1 FY20 financial results booklet (available on www.sappi.com) for a definition of special items.

Sappi North America

Sales Tons +17%*
year-on-year

Sales +5%
year-on-year

EBITDA -14%**
year-on-year

- Good growth in packaging volumes, with improved product mix aids pricing and machine efficiency
- Profits impacted by weak DWP pricing
- Graphics demand down 16%, 20kt downtime taken US\$6m EBITDA impact. Realised prices were flat y-o-y.
- Paper pulp, energy and chemicals costs lower, supporting margins.

* Matane volumes included for 2 months – volumes up 7% excl. Matane

** Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q1 FY20 financial results booklet (available on www.sappi.com) for a definition of special items.

Sappi South Africa

Sales Tons -15%
year-on-year

Sales -25%
year-on-year

EBITDA* -57%
year-on-year

- Historically low DWP prices have significant impact on profitability - US\$272/t lower y-o-y.
- SA containerboard sales impacted by elevated converter inventory and drought impact. 18kt downtime - US\$5m impact
- Weak domestic economy affected newsprint, tissue and office paper sales
- Higher energy and fibre costs further impact margin

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Global graphic paper market trends

- Supply and demand
 - Demand declines continue to exceed trend
 - Capacity reductions positively impacting operating rates over next 12 months
- Selling prices and input costs
 - Small declines in paper prices
 - Paper pulp, chemicals and energy prices lower, supporting margins
- Strategy
 - Focus on costs, both fixed and variable, to maintain margins
 - Manage operating rates through downtime, market share and flexibility of machines
 - Reduce or convert capacity as markets develop/change
 - Increase pulp integration over time

Global packaging and speciality paper market trends

- Supply and demand
 - Brand owners pushing for paper-based packaging solutions, demand remains firm
 - Need for innovation in paper packaging – barrier technology key
- Selling prices and input costs
 - Stable selling prices
 - Paper pulp, chemicals and energy prices lower, supporting margins
- Strategy
 - Ramp-up volumes from conversions, improving efficiencies and grow into new markets
 - Innovation and sustainability key differentiators
 - Increased pulp integration – Matane acquisition

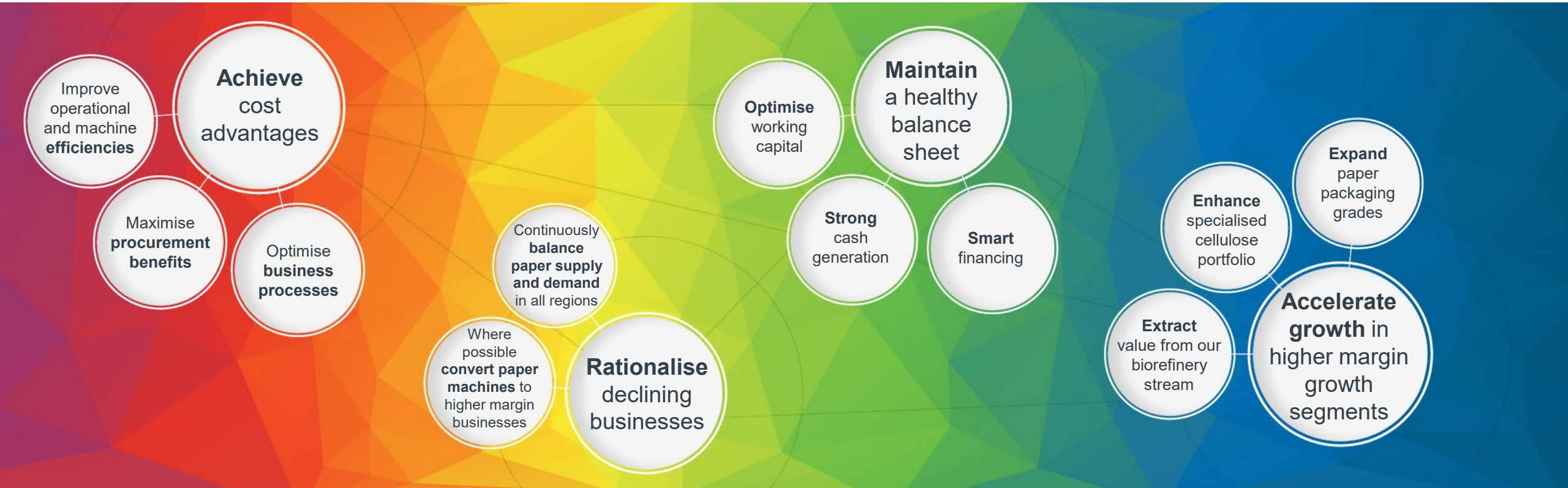
Focus on packaging & specialities

- Looking forward we see the following opportunities in this segment
 - On the back of the investments at Maastricht and Somerset we plan to **further ramp-up paperboard** in the US and EU
 - Complete small **containerboard expansions** in South Africa and investigate larger expansion
 - Identify target / niche sectors, while maintaining dominant position in selected areas
 - Review potential acquisitions aligned with mega-trends and strong ROIs and pay-back periods
 - Invest in further R&D in order to develop capacity organically (e.g. conversions)
 - **Accelerate barrier coating** expansion (5 000 to 25 000 tons per annum), while investigating options in *“plastics to paper”* trend

Global DWP market trends

- Supply and demand
 - Demand trend continues to be strong, growing by ~6% per annum
 - Coronavirus impacting demand in China currently
 - VSF remains oversupplied in a weak pricing environment
 - Some swing producers switching to paper pulp as outlook started to improve
- Selling prices and input costs
 - Both DWP and VSF prices historically low
 - Wood chip prices likely to decline in 2020 due to decline in paper pulp prices during 2019
- Strategy
 - Grow with the market, 110kt expansion at Saiccor 55% complete
 - Evaluate longer term opportunities for more substantial increase in volumes
 - Commitment to sustainability key – wood certification gives Sappi a competitive advantage

Our group strategy



At Sappi we do business with integrity and courage; making smart decisions which we execute with speed. Our values are underpinned by an unrelenting focus on and commitment to safety.

Our group strategy



- We work to lower fixed and variable costs, increase cost efficiencies and invest for cost advantages.
 - Group efficiency and procurement initiatives US\$64m target in 2020
 - Ongoing continuous improvement across all mills.
 - Investigate pulp integration opportunities in US and EU – Matane acquisition, small debottlenecking project in EU in 2020
 - Saiccor expansion will lead to lower variable costs

Our group strategy



- Recognising the decreasing demand for graphic paper, we manage our capacity to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation.
 - Downtime taken at mills to lower inventories
 - Progressive transition of Lanaken Mill out of LWC
 - Reduced coated paper exposure via conversion
 - Evaluating graphic paper capacity

Our group strategy



- Targeted max sustained leverage - 2x Net debt:EBITDA
- No new major capex commitments
- Capex in 2021: US\$250 - \$350m depending on DWP market development in 2020
- Leverage covenant adjusted for next two years
- Tight working capital management

Our group strategy



- We will make investments in existing and adjacent areas with strong potential growth.
 - Debottlenecking of Saiccor, Ngodwana and Cloquet DWP complete
 - Expansion of Saiccor by 110kt/annum 55% complete
 - Additional packaging at Ngodwana and Tugela Mills
 - Securing additional HW and SW timber supply
 - Biomaterials, bio-chemicals – lignins, sugars
 - Ramp-up of board grades at Maastricht and Somerset
 - Extend barrier coating opportunity

Outlook

- DWP prices remain under pressure – low VSF prices make recovery unlikely in short term – market fundamentals still support strategy
- Machine efficiency, product mix and price realization improving as Somerset PM1 and Maastricht conversions ramp up.
- Strong innovative position, particularly in barrier technology, helping to drive growth in packaging and speciality segment as consumers and brand owners desire more sustainable solutions.
- Graphic paper markets remain difficult – market share gains and industry capacity closures to aid operating rates
- Given current DWP pricing and uncertain impact of coronavirus, EBITDA in Q2 to follow first quarter trend.

Thank you

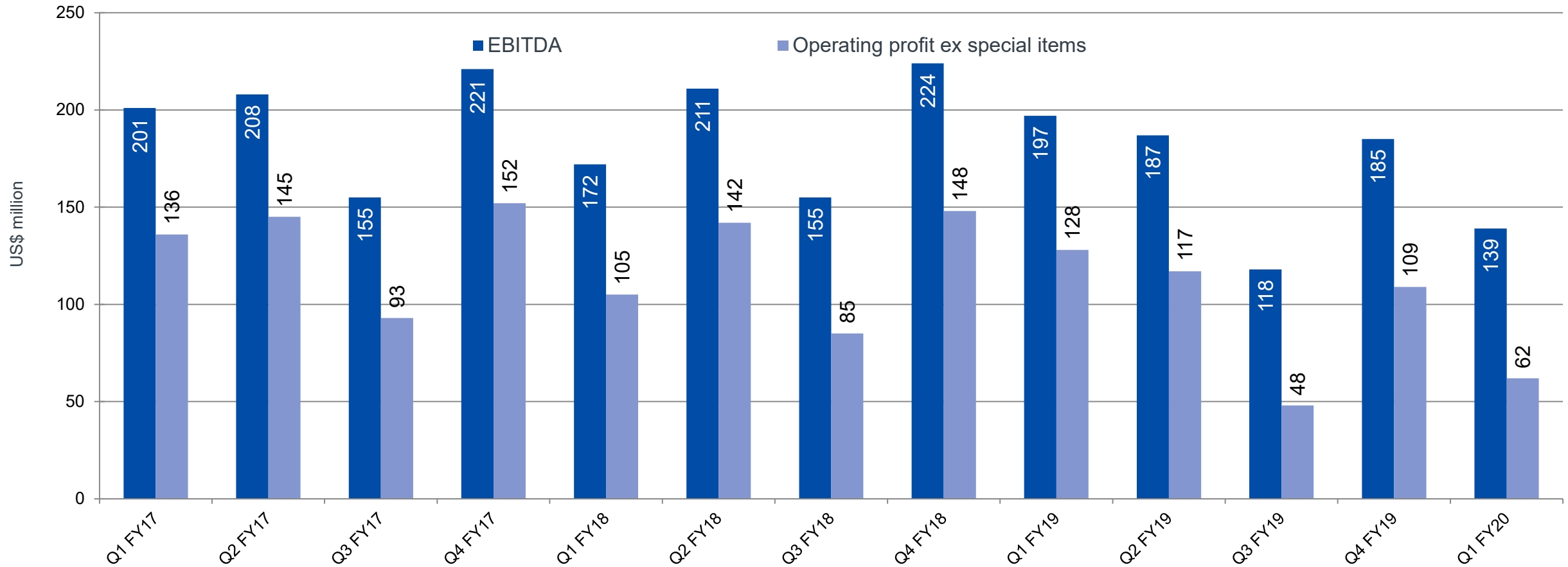


Supplementary information



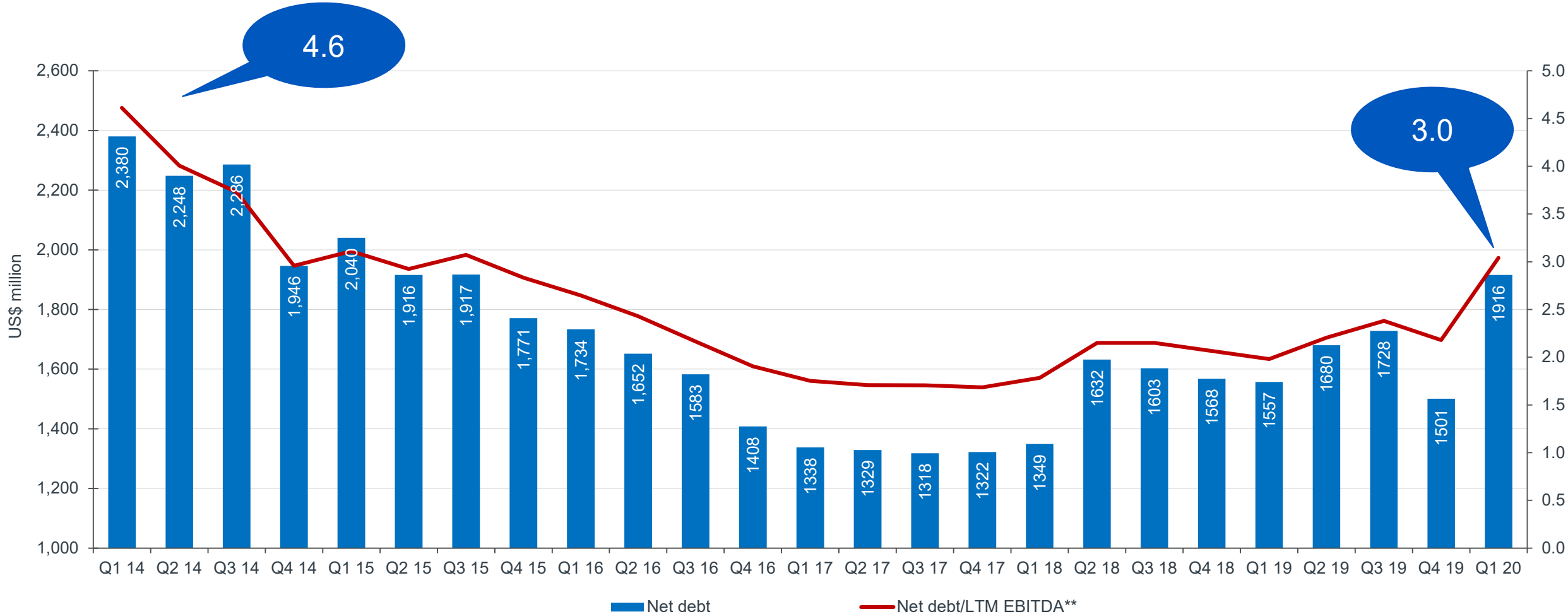
EBITDA and operating profit

Excluding special items*



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Net debt/EBITDA development



* EBITDA is excluding special items.

** The covenant Net debt/LTM EBITDA calculation has adjustments and therefore differs from that shown above.

Global packaging and speciality production sites

Sappi Alfeld (Germany)



Flexible Packaging, Label, Paperboard, Containerboard, Silicone Base Papers, Functional Papers

Sappi Stockstadt (Germany)



Label Papers, Flexible Packaging, Containerboard

Sappi Condino (Italy)



Flexible Packaging, Silicone Base Papers, Dye Sublimation Paper

Sappi Somerset (USA)



Label Papers, Paperboard, Flexible Packaging

Sappi Tugela (South Africa)



Containerboard

Sappi Maastricht (Netherlands)



Paperboard

Sappi Lanaken (Belgium)



Functional Papers

Rockwell Dundee (Scotland)



Functional Papers and Flexible Packaging

Sappi Cloquet (USA)



Label Papers

Sappi Ngodwana (South Africa)



Containerboard

Sappi Ehingen (Germany)



Containerboard

Sappi Carmignano (Italy)



Flexible Packaging, Label Papers, Inkjet Papers, Dye Sublimation Papers

Packaging and Speciality papers expansion plans



- Europe
 - Maastricht: complete, ramp-up by 2021
 - -160k CWF, +150k specialities (FBB)
 - Echingen: complete
 - -75k CWF, +60k specialities (WTL)
 - Alfeld: Post 2020
 - +10k specialities (Various)
 - Lanaken: enable CWF on PM8, as market develops
- North America
 - Somerset: construction done, 3 year ramp up
 - -150k CWF, +350k specialities (SBS)

Flexible Packaging
Flexible paper solutions - Ready.



Label Papers
Label your brand. At premium.



Containerboard
Pure quality with every fibre of our being.



Silicone Base Papers
Where advantage is self-adhesive.



EU Packaging and Specialities

Dye Sublimation Papers
Highest precision in sublimation transfer.



Inkjet Papers
Outstanding quality in large formats.



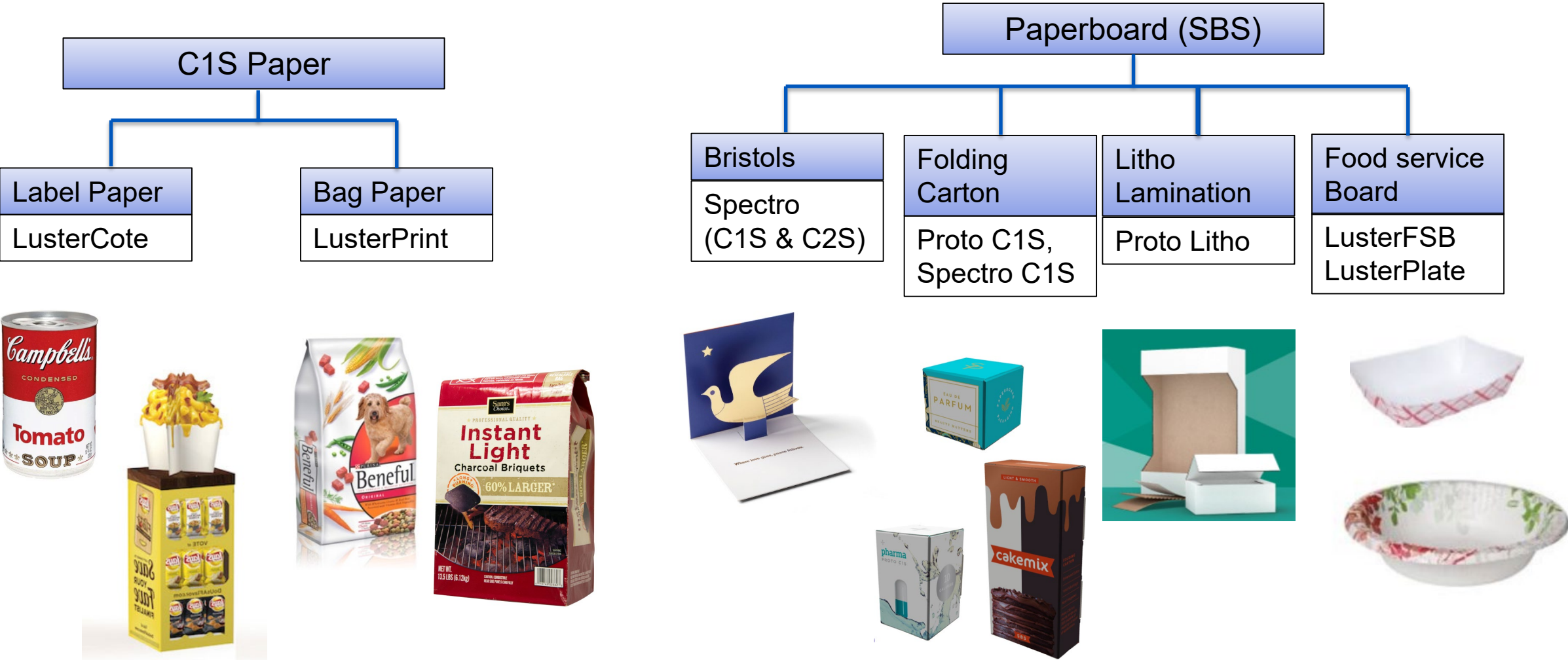
Functional Papers
Cutting-edge barrier paper solutions.
Made of 100% future.



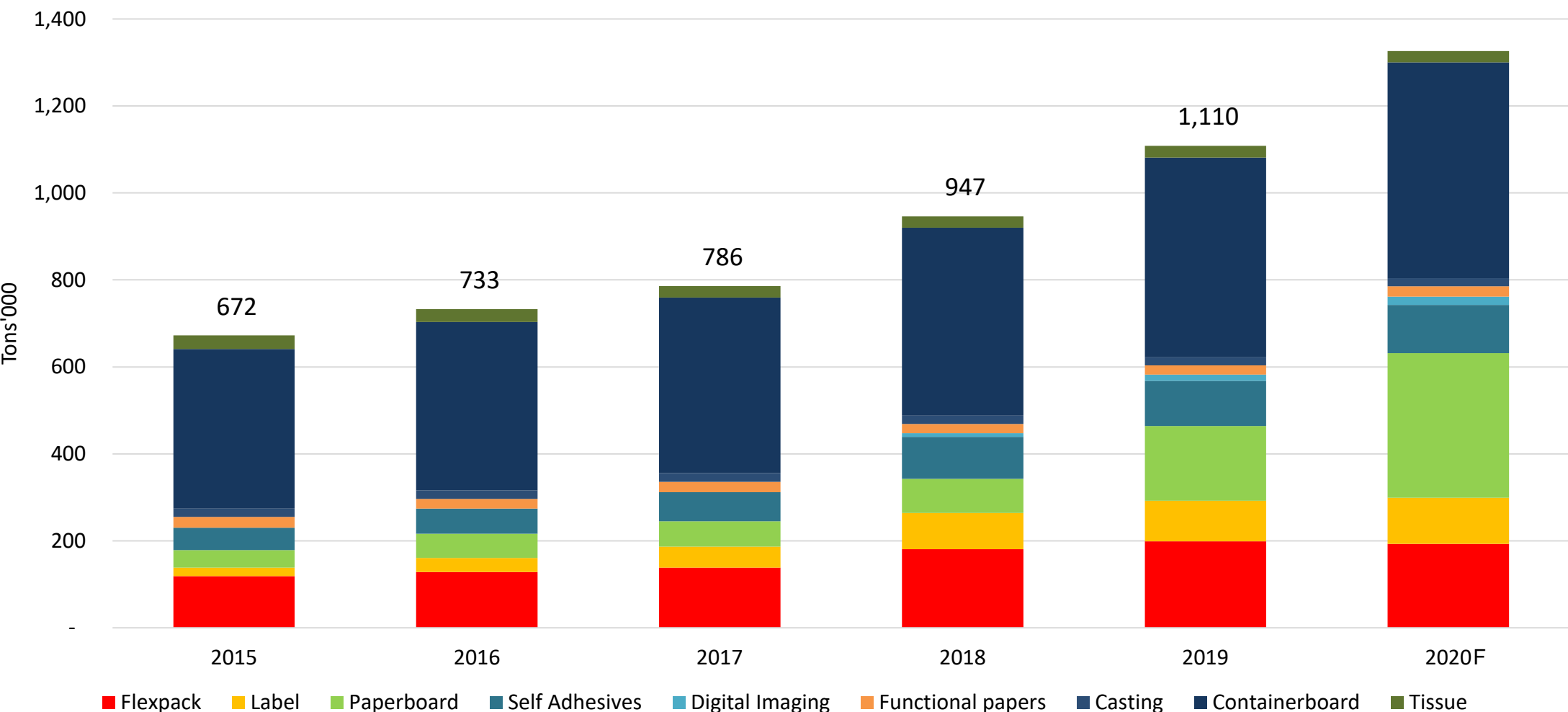
Paperboard
Unpack your true potential.



Sappi North America packaging offering



Packaging & specialities volume growth 2015 to 2020



EU consumer and brand owner sustainability focus

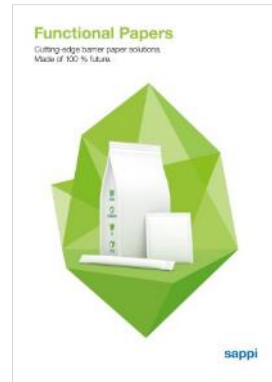
Desired outcome

- Prevent or reduce the impact of packaging waste on the environment by avoiding and recycling packaging waste; preference for Monomaterials

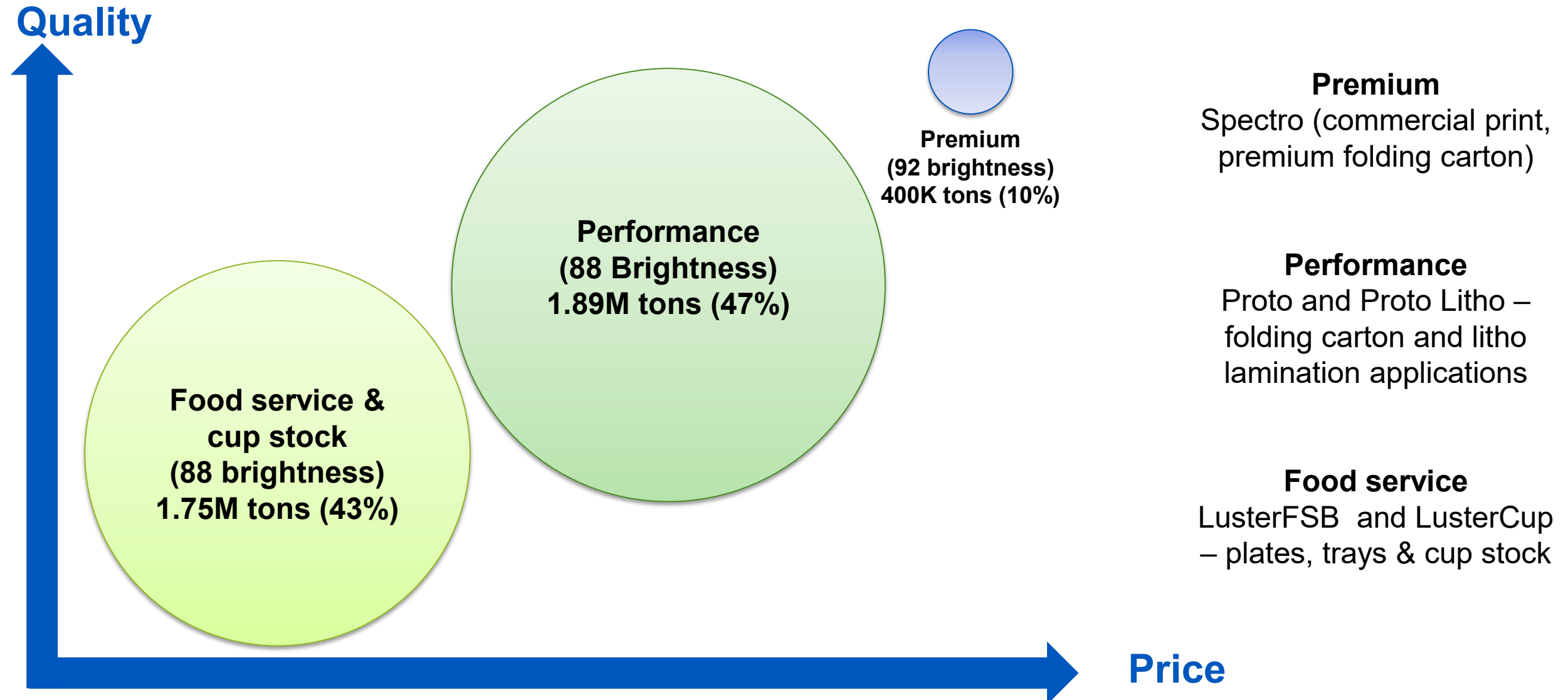
Consequences

- Product design requires a “designed for recycling” approach
- Recycling systems to be established and/or heavily expanded
- Rewards easy to recycle packaging
- Replacement for paper laminates and aluminum
- Huge potential for Barrier papers and board
- Low Carbon footprint is a competitive advantage

4EverGreen initiative just started with more than 60 participants



NA paperboard segments



Sappi Europe

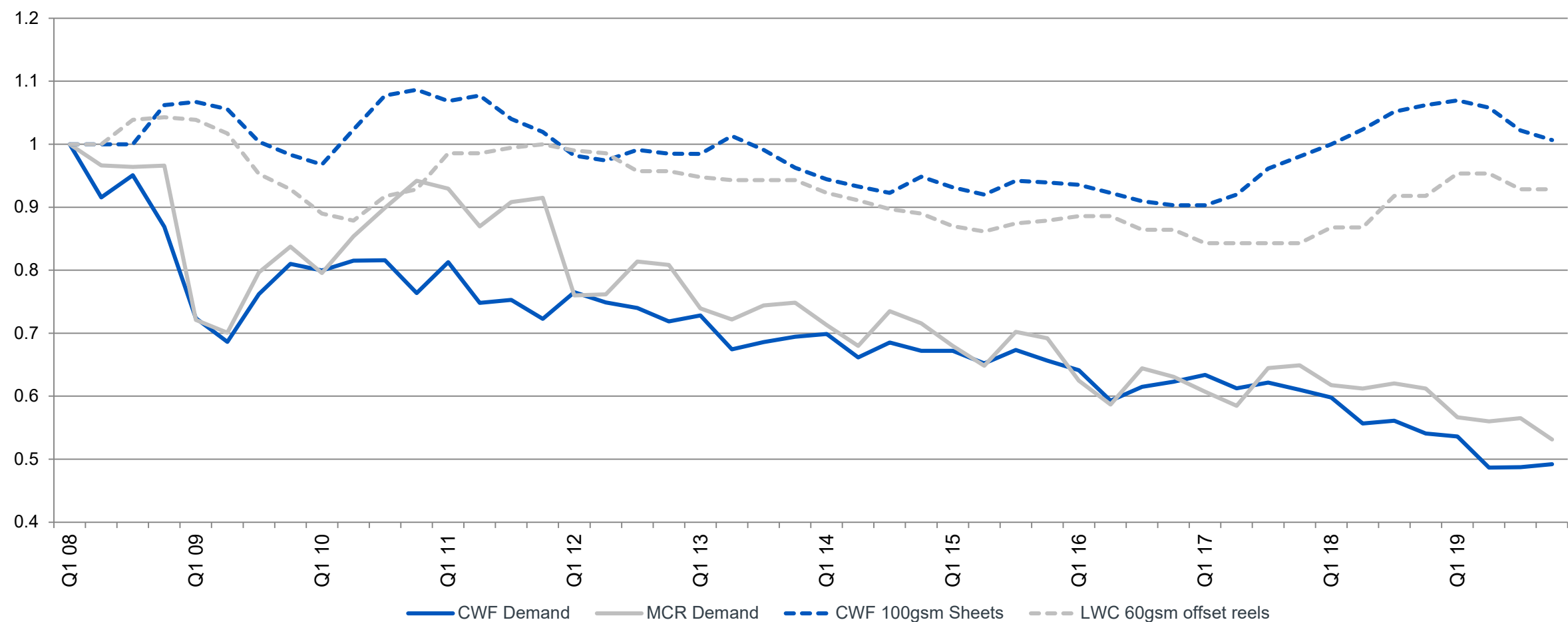
	Q1 FY20	Q4 FY19	Q1 FY19
Tons sold ('000)	795	801	809
Sales (EURm)	619	633	642
Price/Ton (EUR)	779	790	794
Cost/Ton* (EUR)	737	764	756
Operating profit excluding special items** (EURm)	33	21	30

* Sales less operating profit excluding special items divided by tons sold.

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Coated paper deliveries and prices

Western Europe



Western Europe shipments including export.
Source: Cepifine, Cepiprint and RISI indexed to calendar 1Q 2008.

Sappi North America

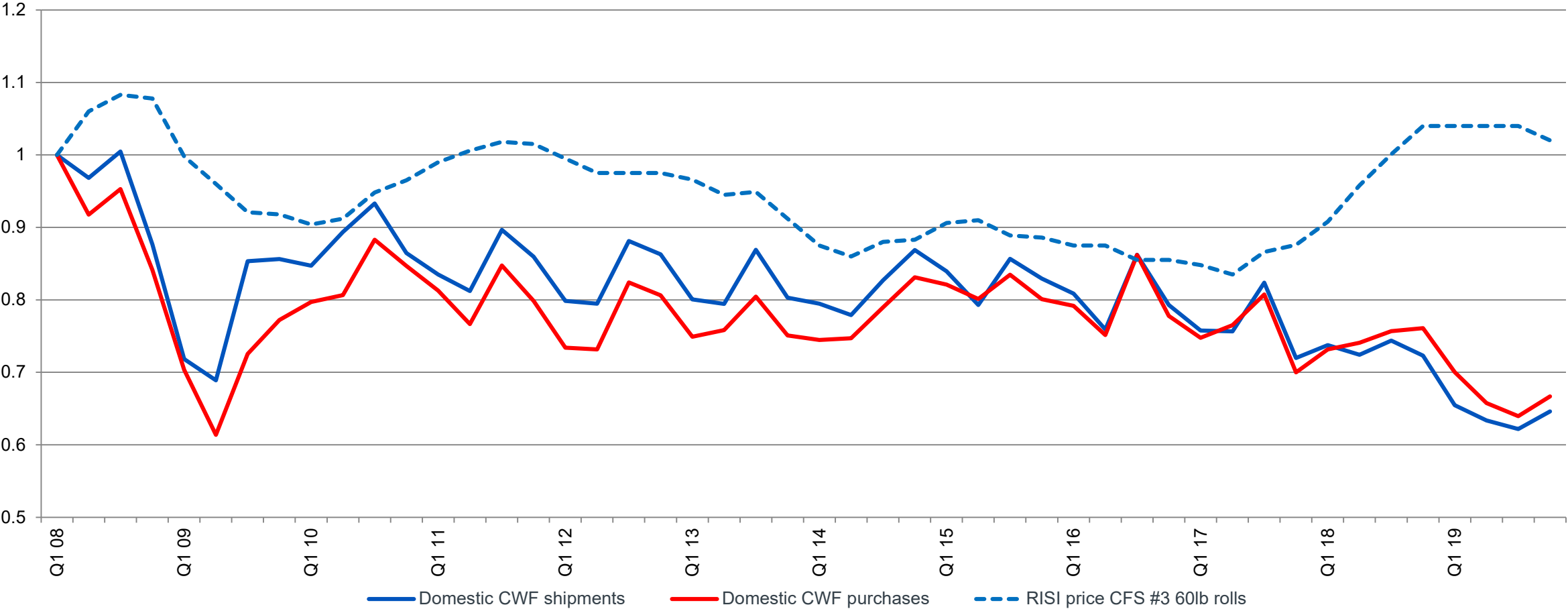
	Q1 FY20	Q4 FY19	Q1 FY19
Tons sold ('000)	377	388	321
Sales (USDm)	370	394	351
Price/Ton (USD)	981	1,015	1,093
Cost/Ton* (USD)	979	972	1,065
Operating profit excluding special items** (USDm)	1	17	9

* Sales less operating profit excluding special items divided by tons sold.

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Coated paper deliveries and prices

United States of America



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

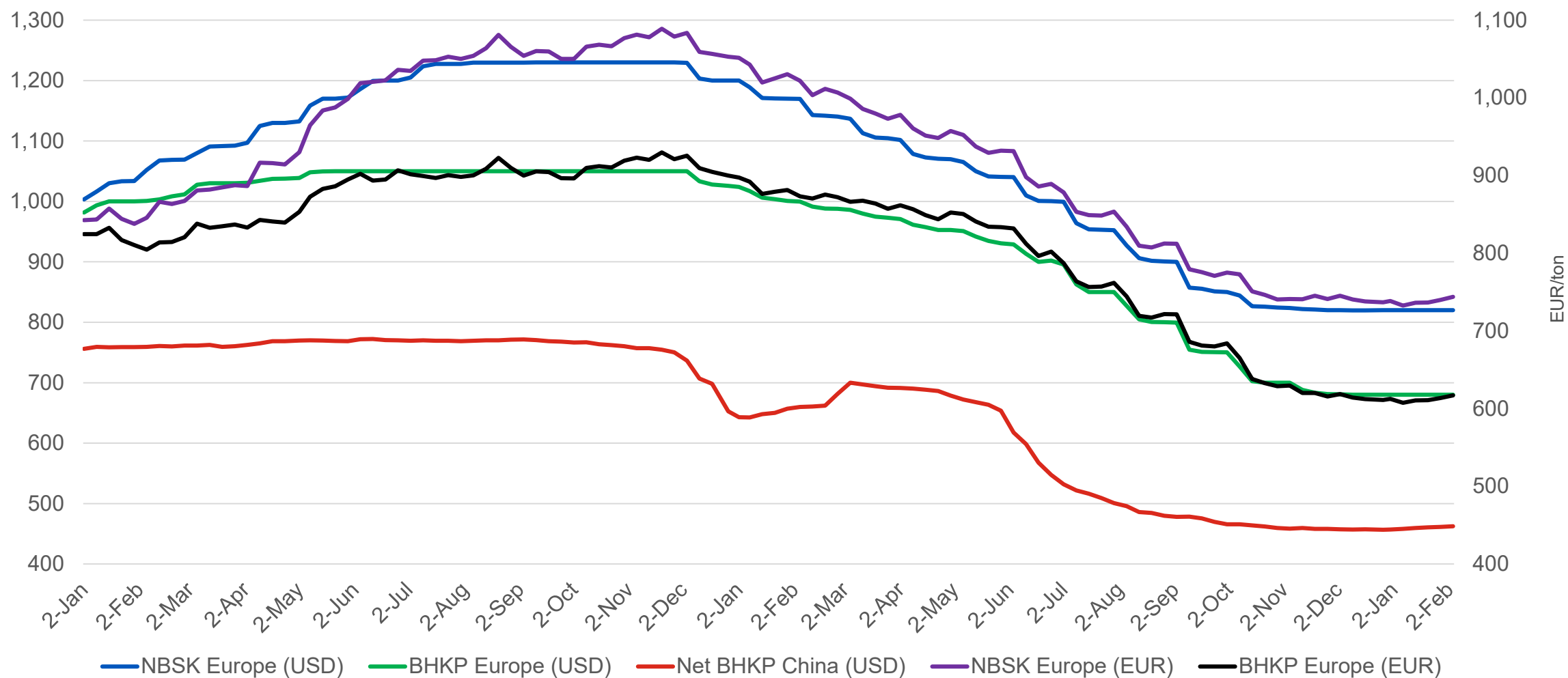
Sappi South Africa

	Q1 FY20	Q4 FY19	Q1 FY19
Tons sold ('000)	338	450	396
Sales (ZARm)	3,549	5,145	4,709
Price/Ton (ZAR)	10,500	11,433	11,891
Cost/Ton* (ZAR)	9,541	9,216	8,818
Operating profit excluding special items** (ZARm)	324	998	1,217

* Sales less operating profit excluding special items divided by tons sold.

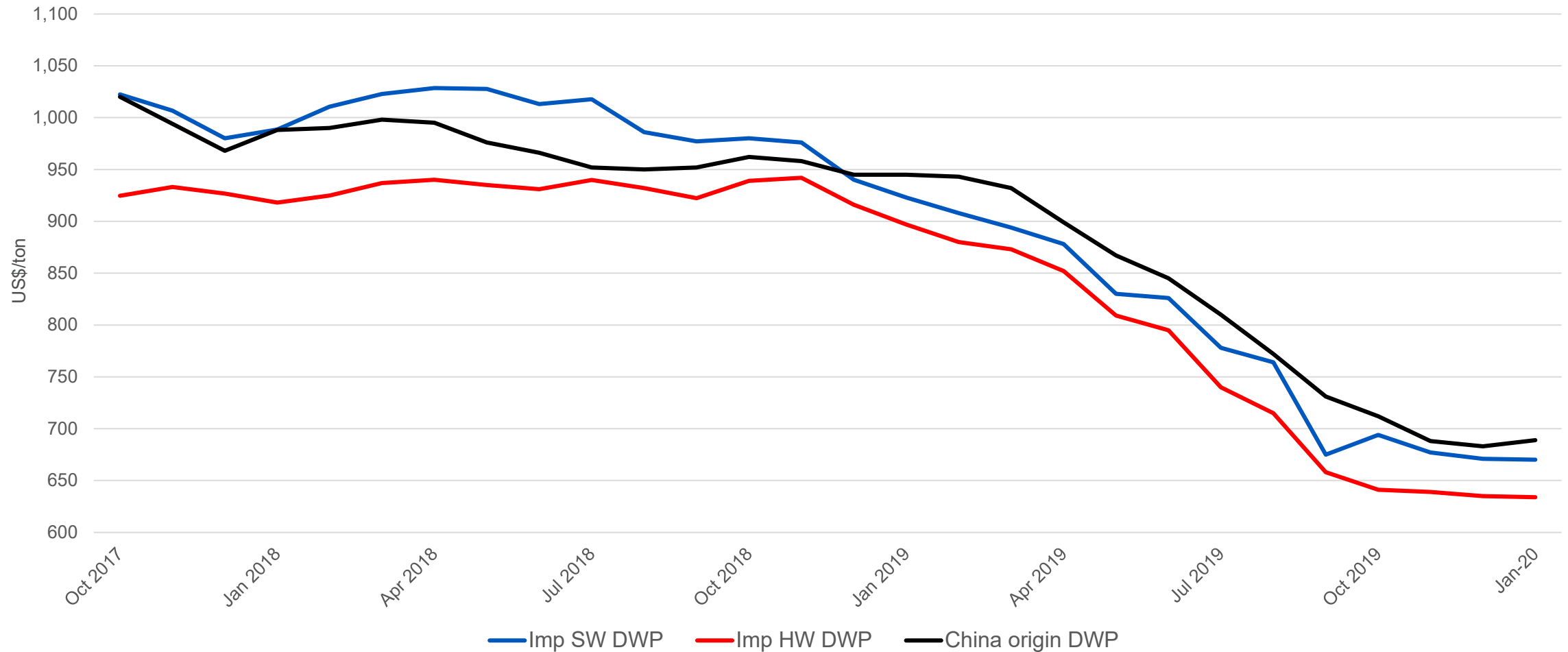
** Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q1 FY20 financial results booklet (available on www.sappi.com) for a definition of special items.

Paper pulp prices*



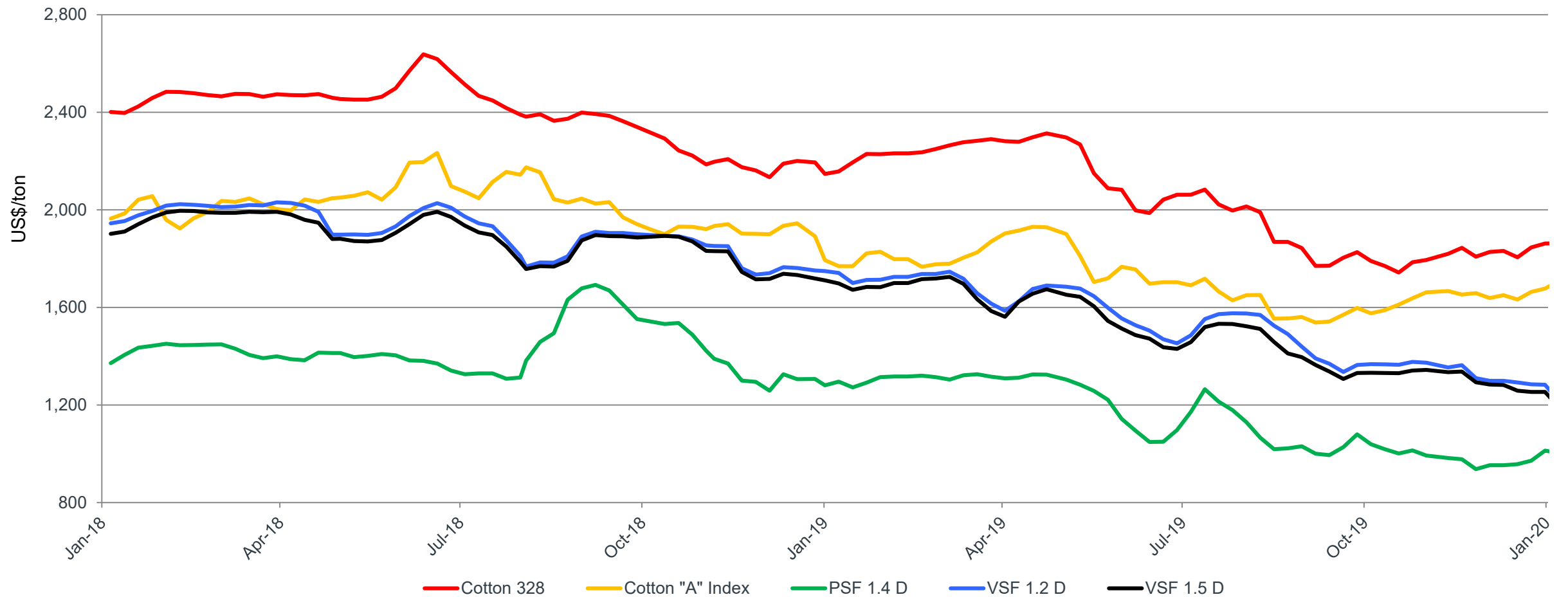
* Source: FOEX, CCF group.

Dissolving pulp prices*



* Source: CCF group

Textile fibre prices*



* Source: CCF group

Cash flow

US\$m	Q1 FY20	Q4 FY19	Q1 FY19
Cash generated from operations	136	176	197
Movement in working capital	(76)	132	(87)
Net finance costs paid	(35)	(5)	(8)
Finance income received	2	3	3
Taxation (paid) refund	(32)	-	(3)
Cash generated from operating activities	(5)	306	102
Cash utilised in investing activities	(273)	(133)	(109)
Capital expenditure	(112)	(135)	(106)
Proceeds on disposal of assets	-	1	-
Acquisition of subsidiary	(158)	-	-
Other non-current asset movements	(3)	1	(3)
Net cash generated (utilised)	(278)	173	(7)

EBITDA and operating profit

Excluding special items* reconciliation to reported operating profit

US\$m	Q1 FY20	Q4 FY19	Q1 FY19
EBITDA excluding special items*	139	185	197
Depreciation and amortisation	(77)	(76)	(69)
Operating profit excluding special items*	62	109	128
Special items* - gains (losses)	(7)	(12)	(5)
Plantation price fair value adjustment	6	5	3
Acquisition cost	(5)	(2)	-
Net restructuring provisions	(1)	-	-
Profit on disposal and written off assets	-	(7)	-
Asset impairments	-	(7)	-
Fire, flood, storm and other events	(7)	(1)	(8)
Operating profit	55	97	123

* Refer to page 22 in our Q1 FY20 results booklet (available on www.sappi.com) for a definition of special items.

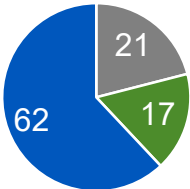
Cellulosic fibre properties helping drive that growth

✓✓ Key strength ✓ Qualifies ✗ Issue
■ Nonwovens/Technical textiles ■ Home textiles ■ Apparel

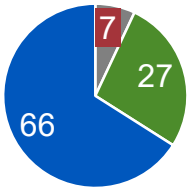
Fibre properties and applications

Applications

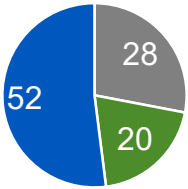
Cellulosic fibres



Cotton



Polyester



Function and feel

Durability

✗

✓

✓✓

Absorbency

✓

✓

✗

Breathability

✓

✓

✗

Softness

✓

✓

✓

Drape

✓

✗

✗

Appearance

Dyeability

✓✓

✓

✓✓

Brightness/Lustre

✓✓

✓

✓

Sustainability

Renewable and biodegradeable

✓✓

✓✓

✗

Resource efficiency

✓✓

✗

✗

Overall value proposition

- Natural and attractive, 'greener' alternative to cotton

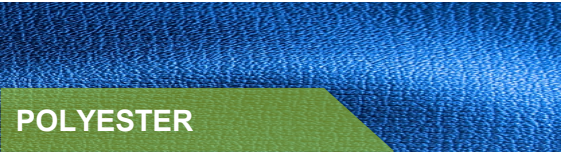
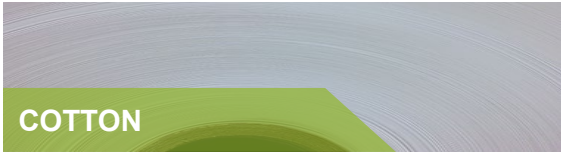

- Natural, functional and well established

- Cheap, durable and versatile

- On a pure property basis, cellulosic fibres are superior to cotton and differentiated on sustainability.
- Polyester is differentiated on strength/durability versus cotton and cellulosic fibres.

Source: IHS Global, RISI, Hawkins Wright.

There is still significant headroom to increase the level of cellulosic fibre blending in most sub-categories

	 POLYESTER			 COTTON			 CELLULOSIC		
	Today	Future	Gap	Today	Future	Gap	Today	Future	Gap
Apparel									
Denim	5%	5%	0	95%	95%	0%	0%	0%	0%
Shirts	35%	40%	+14%	50%	40%	-20%	15%	20%	+33%
T-shirts	30%	50%	+67%	70%	50%	-29%	3%	5%	0%
Dresses	10%	10%	0%	35%	25%	-29%	55%	65%	+18%
Suits	35%	40%	+14%	25%	20%	-20%	~1%	~2%	+100%
Sportswear	85%	85%	0%	0%	0%	0%	15%	15%	0%
Casual wear	45%	50%	+11%	45%	35%	-22%	10%	15%	+50%
Home textile									
Towels	5%	5%	0%	80%	75%	-6%	15%	20%	+33%
Bedding	45%	55%	+22%	45%	40%	-11%	1%	2%	+100%

Source: Expert interviews.

Thank you

