

Q2 FY17 financial results

15 May 2017



Steve Binnie
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.

Summary



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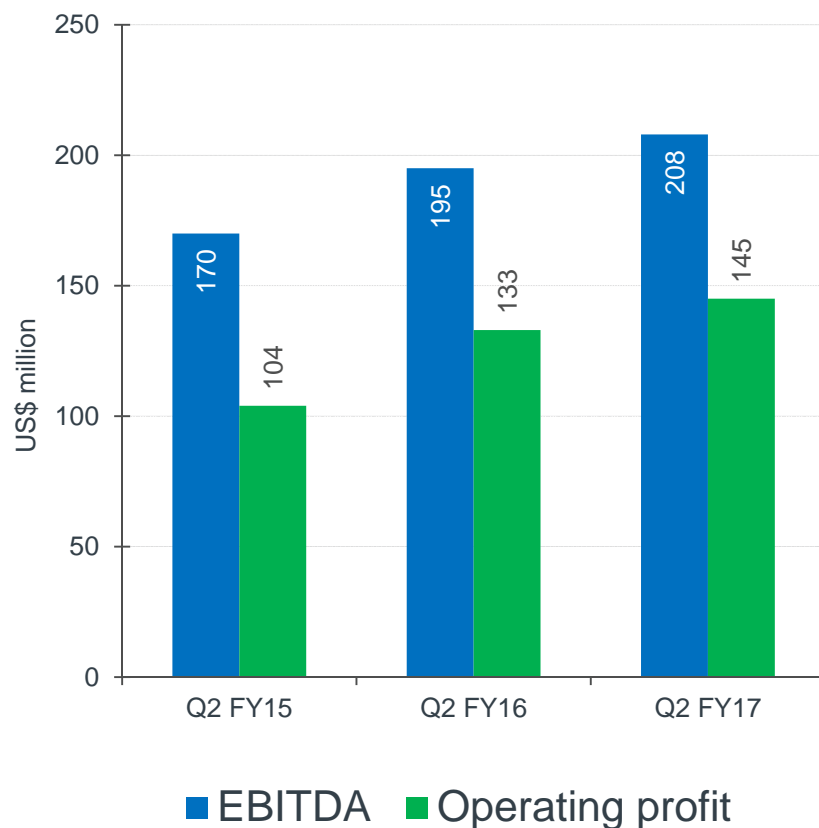
Highlights

Q2 FY17

- EBITDA ex-special items US\$208m (Q2 FY16 US\$195m)
- Profit for the period US\$88m (Q2 FY16 US\$100m)
- EPS ex-special items 17 US cents (Q2 FY16 16 US cents)
- Net debt US\$1,329m, down US\$323m year-on-year

EBITDA and operating profit

Excluding special items*

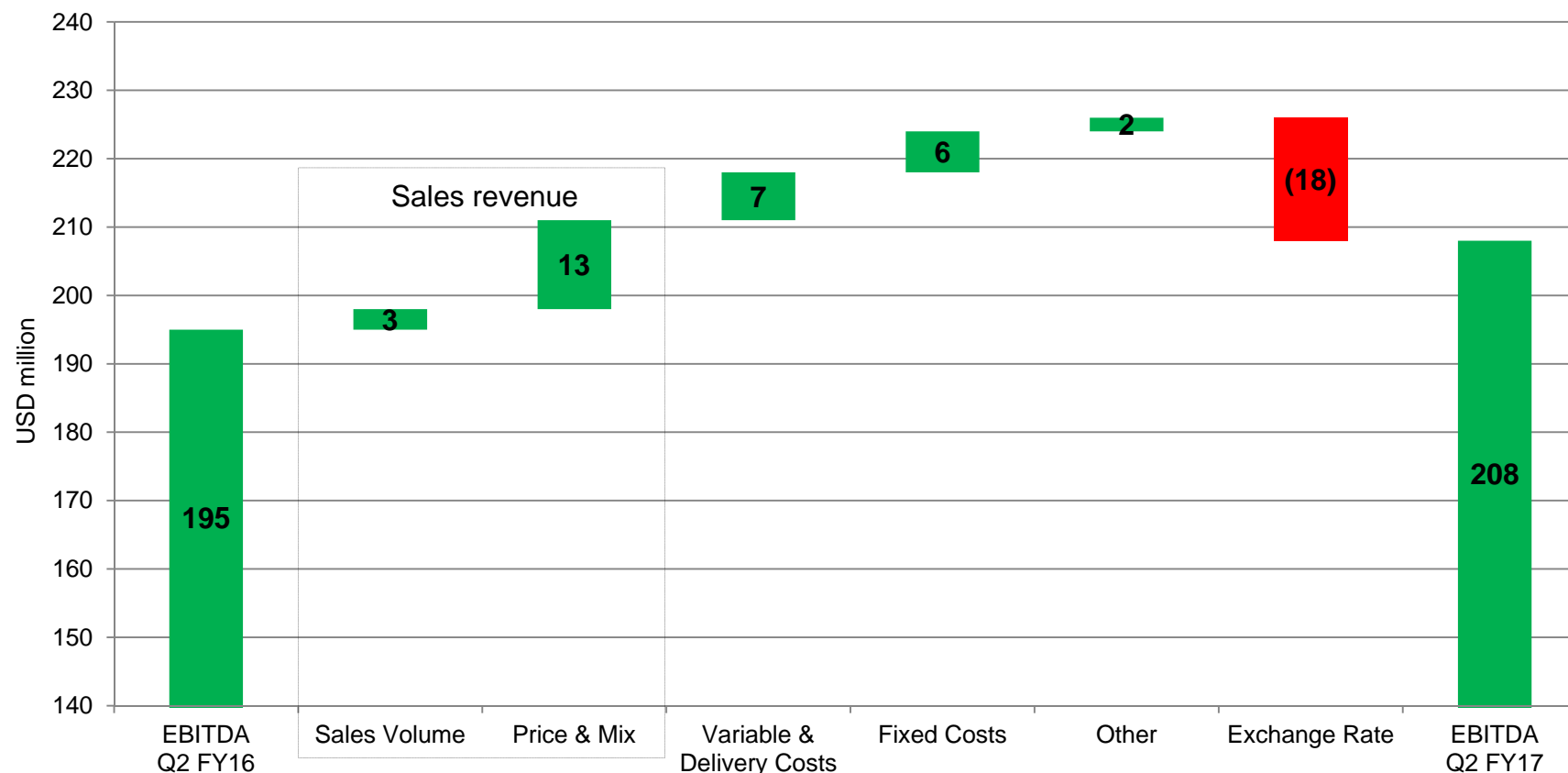


Key ratios

	Q2 FY15	Q2 FY16	Q2 FY17
Net Debt/ LTM EBITDA	2.9	2.4	1.7
Interest Cover	3.7	6.5	7.7
EBITDA %	12.7	15.1	15.8
ROCE %	13.5	19.3	20.5

EBITDA Bridge*

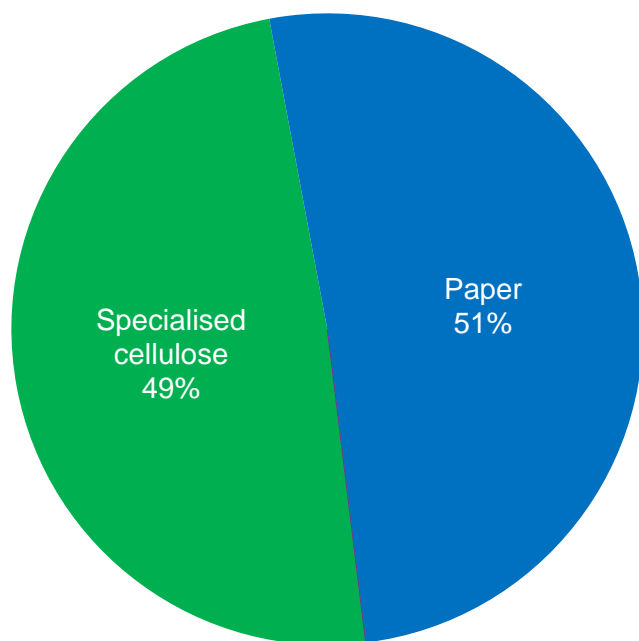
Q2 FY16 to Q2 FY17



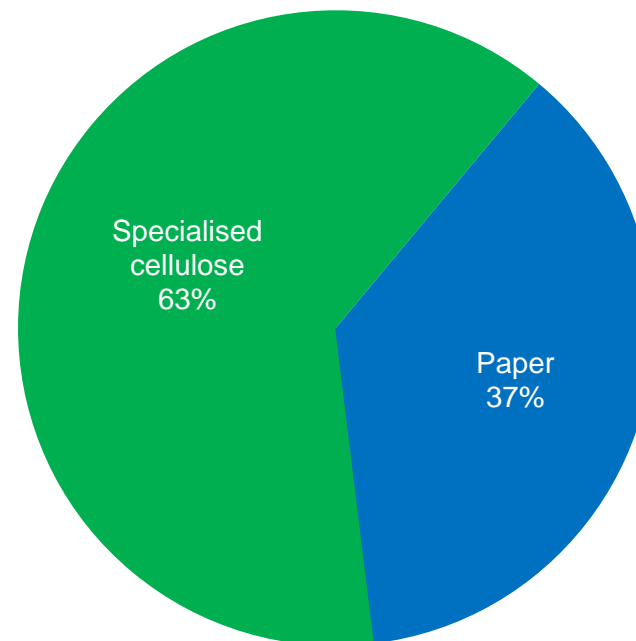
- All variances calculated excluding Sappi Forestry.
- “Exchange rate” reflects the impact of changes in the average rates of translation of foreign currency results.

Product contribution split - LTM

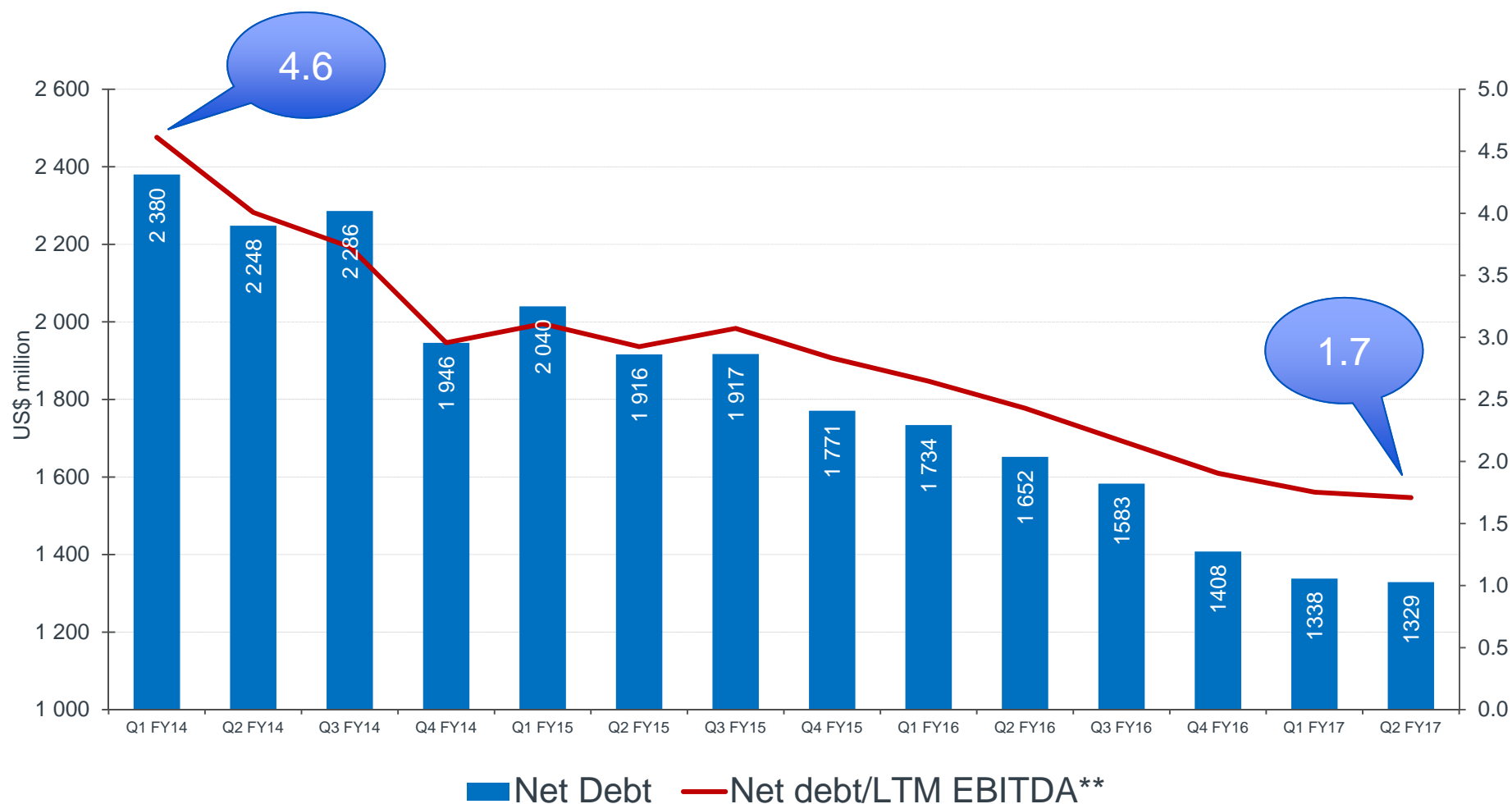
EBITDA excluding special items*



Operating profit ex special items



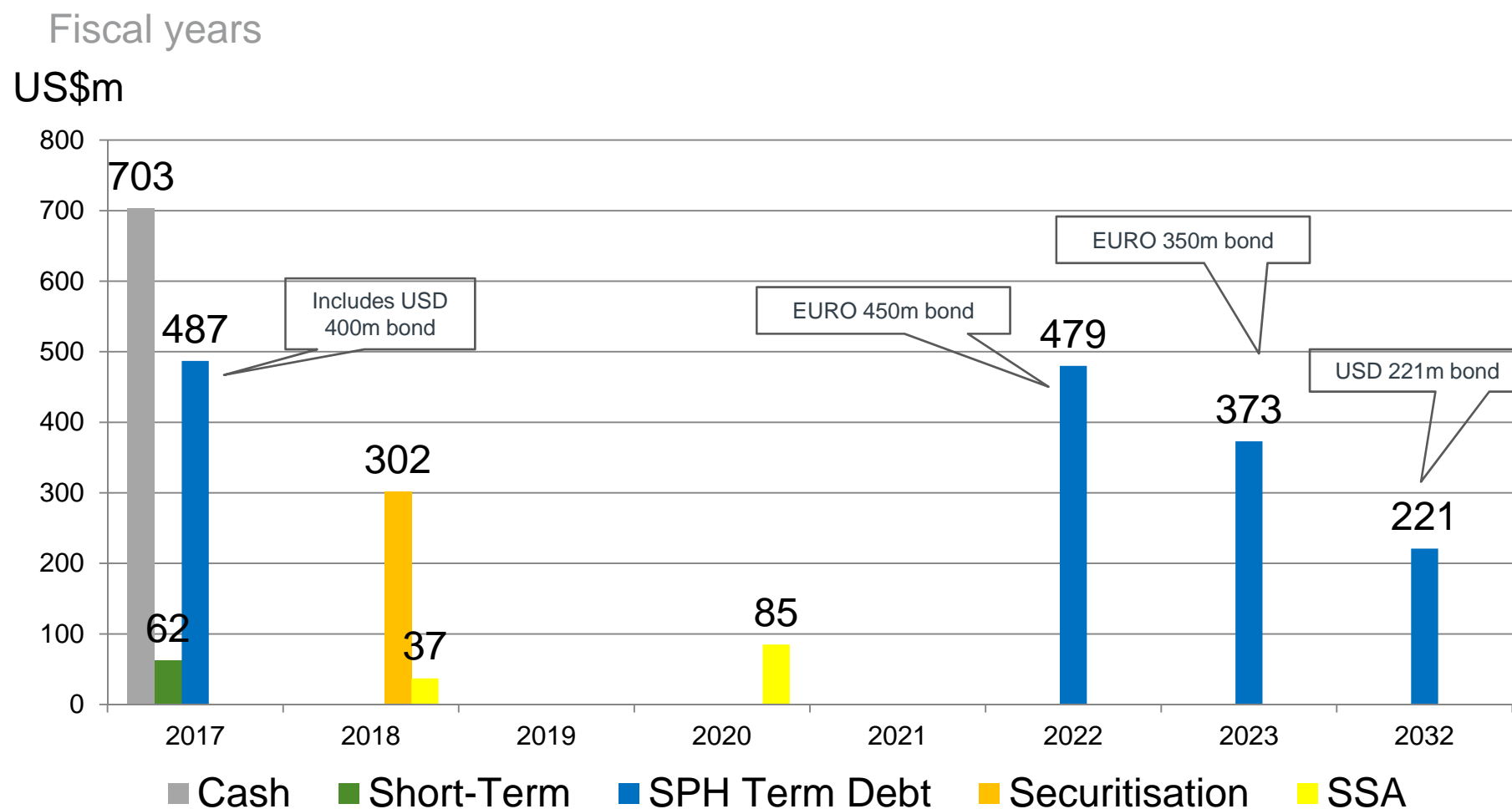
Net debt/EBITDA development



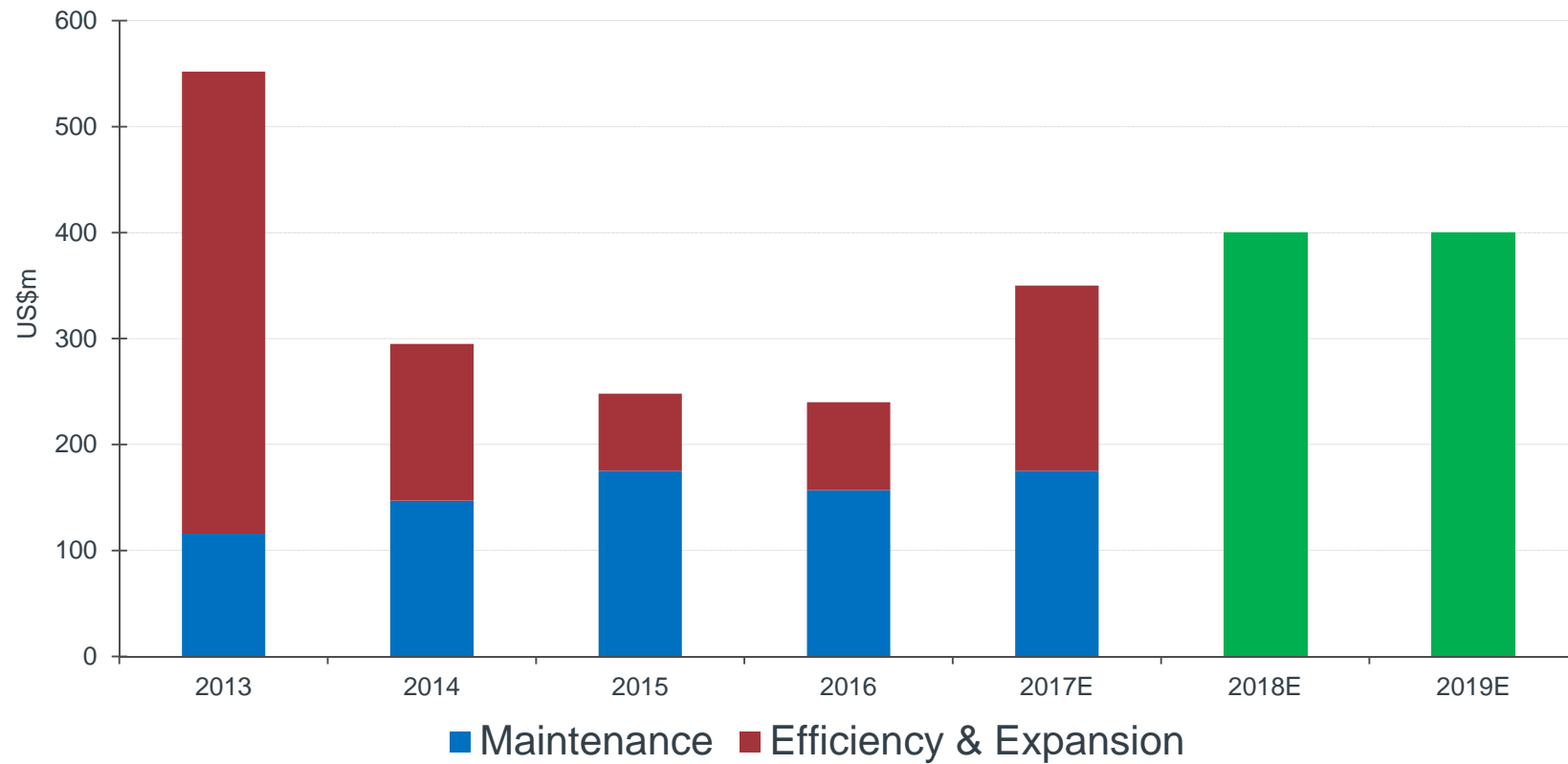
* EBITDA is excluding special items

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

Maturity profile



Capex development



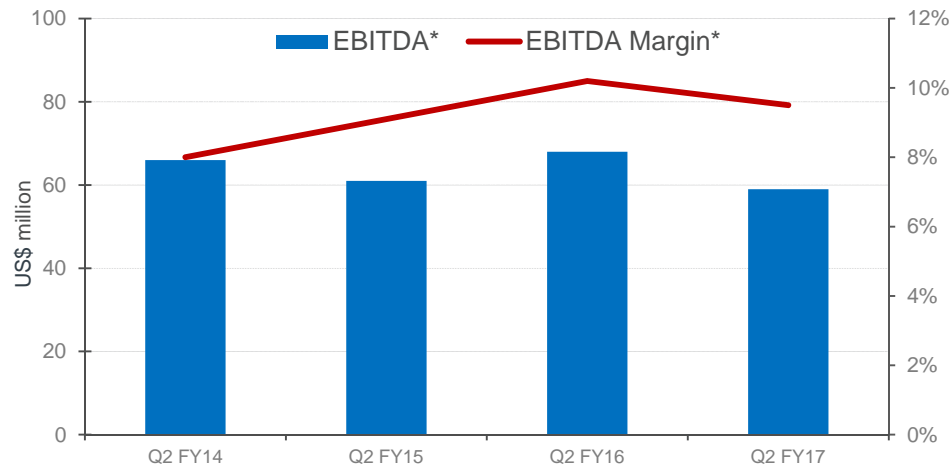
Divisional overviews



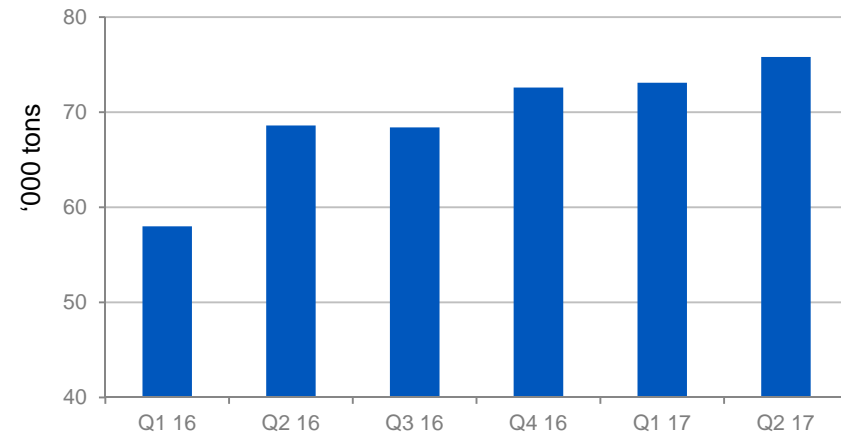
Global paper market trends

- Supply and demand
 - Continued weakness in graphic markets
 - Necessitating industry closures/conversions – SC closures announced
 - Speciality packaging paper demand continues to grow 1%-5%
- Selling prices and input costs
 - Selling prices have stabilised after past year declines, price increases required in Europe to offset input cost increases
 - Most variable costs still low, pulp and latex costs rising steeply.
- Strategy
 - Conversion of coated capacity to packaging in line with coated demand declines
 - Cost and efficiency programs to reduce fixed and variable

Sappi Europe

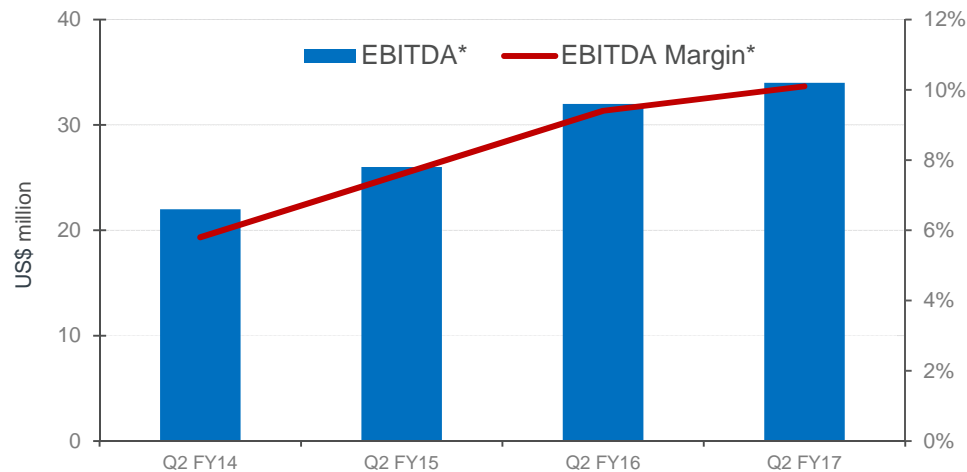


Speciality Packaging Volumes

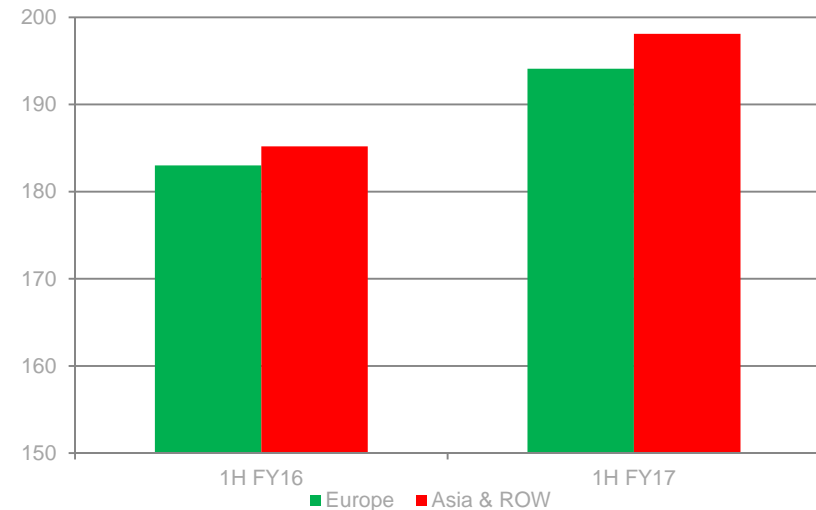


- Margins declined due to lower year-on-year coated paper selling prices - price increases announced
- Variable costs starting to rise, primarily due to latex and pulp
- Speciality paper performance was stronger on improved volumes

Sappi North America



CWF Imports into US by source**



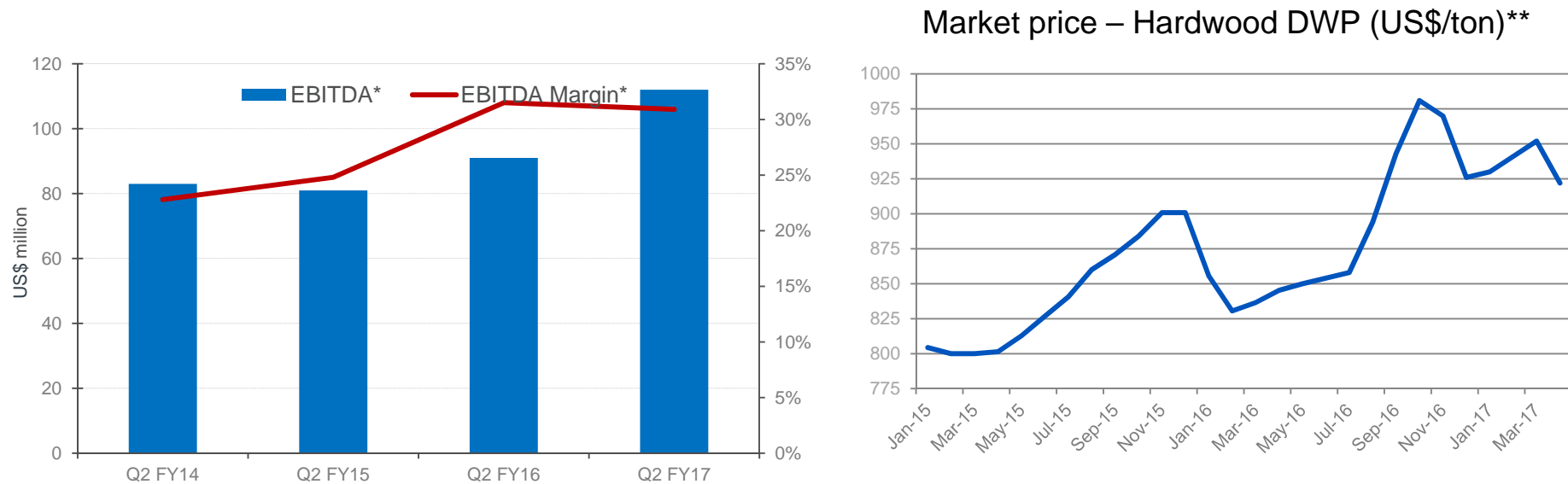
- Improved profitability on lower variable costs and efficiency initiatives
- Higher DWP prices and increased speciality and packaging sales volumes contributed
- Coated paper under pressure from weak demand and lower pricing



Global DWP market trends

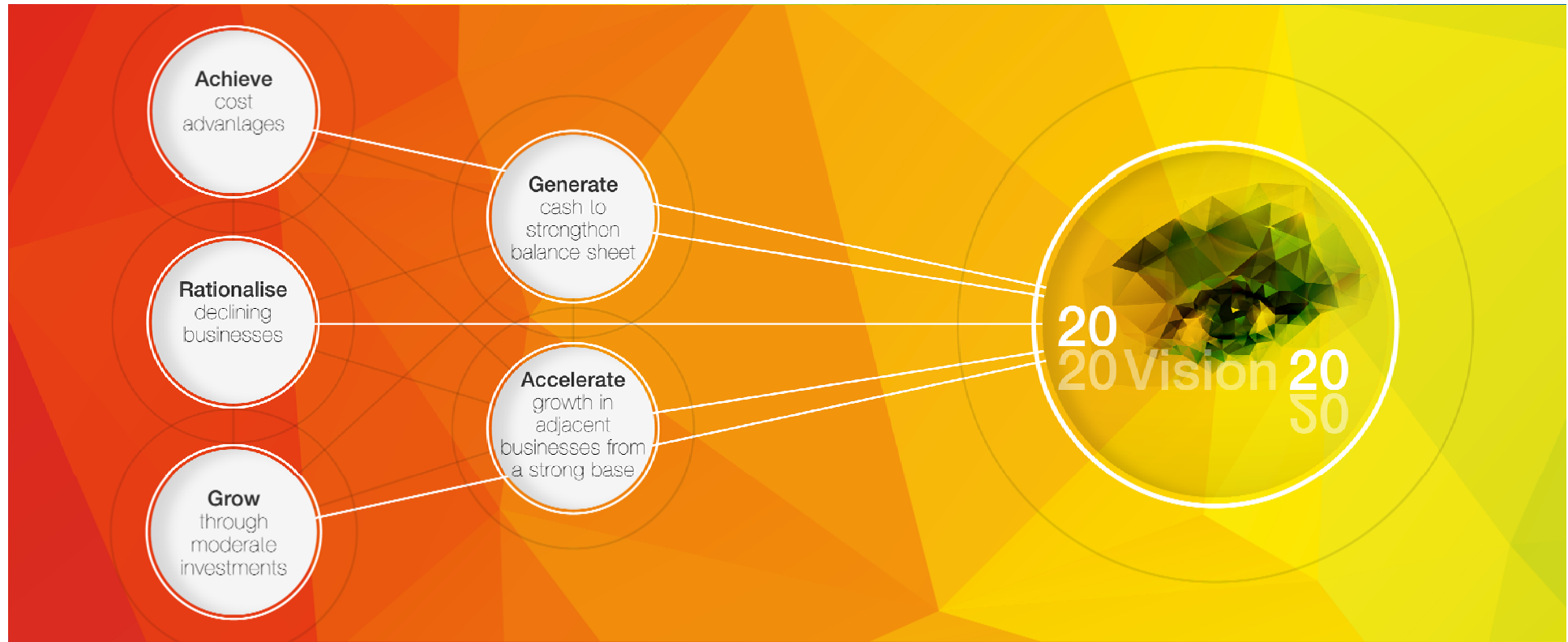
- Supply and demand
 - Continued strong demand from new viscose capacity
 - New DWP capacity has been delayed – limited capacity addition 2017/2018
- Selling prices and input costs
 - Textile fibre price declines lead to lower DWP prices during April
 - Commodity prices and currency moves impacting cost base
- 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

Sappi Southern Africa



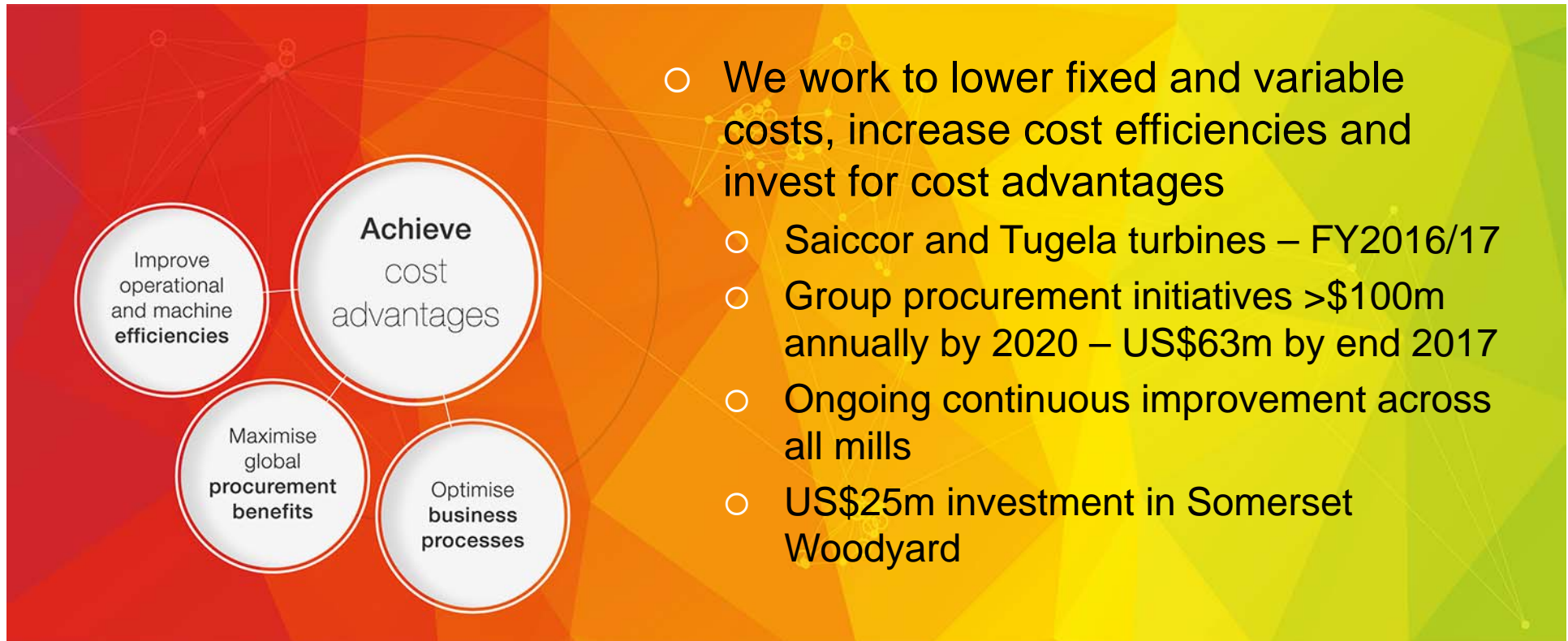
- Continued robust margins on higher DWP volumes and prices offset increased variable costs and the stronger ZAR/US\$ exchange rate
- Saiccor's annual maintenance shut (March) expected to resolve recent production issues
- Strong recovery in volumes for our containerboard, expected to continue

Strategic focus



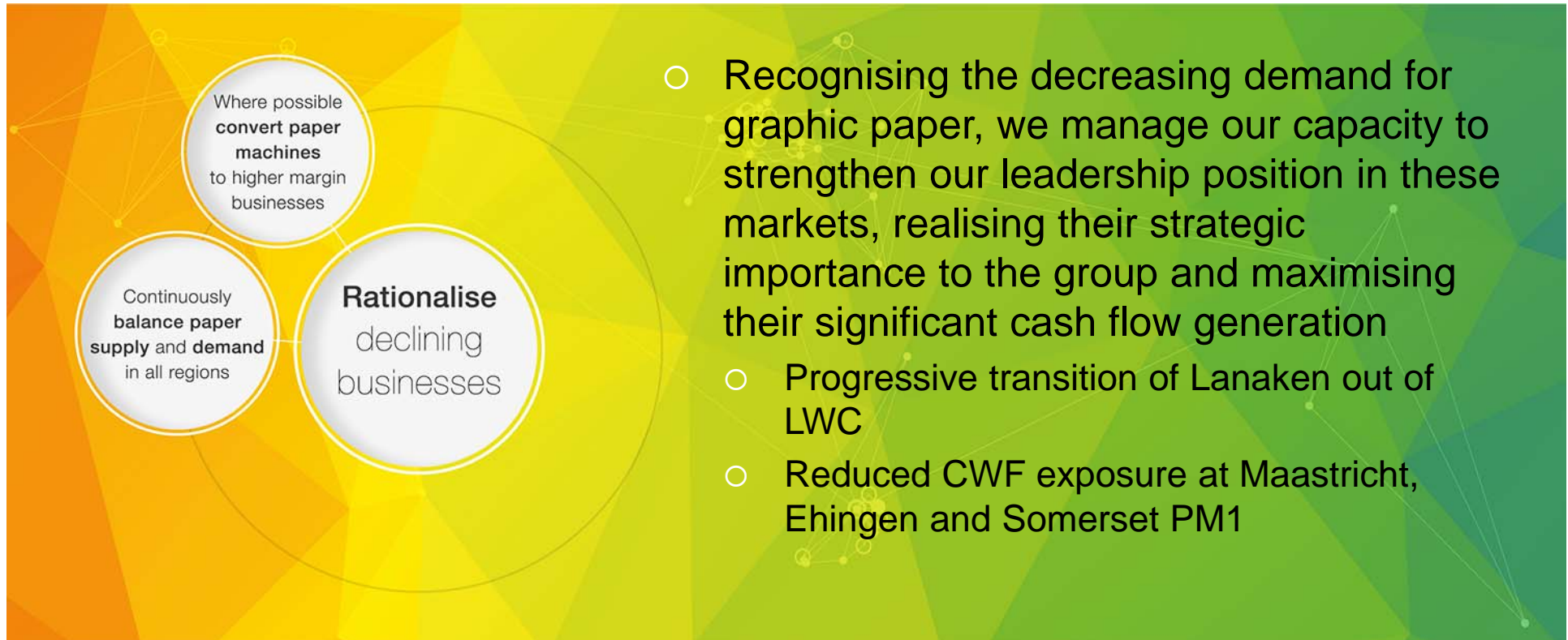
Focus areas

Achieve cost advantages



Focus areas

Rationalise and optimise declining businesses



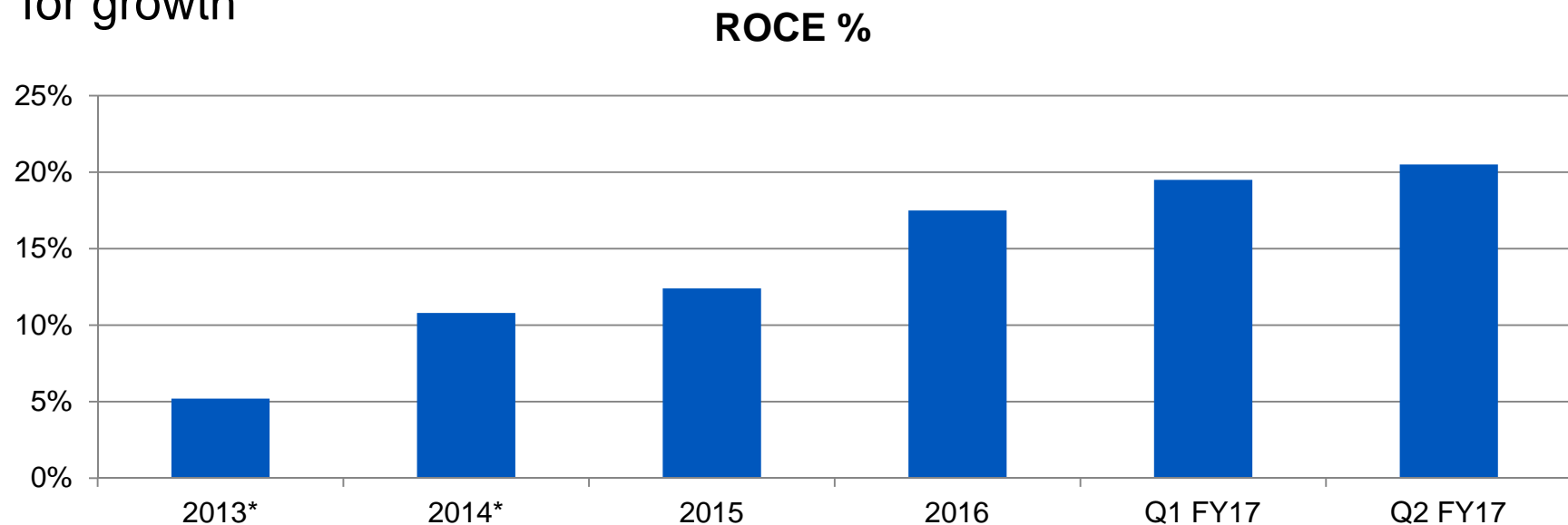
Focus areas

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



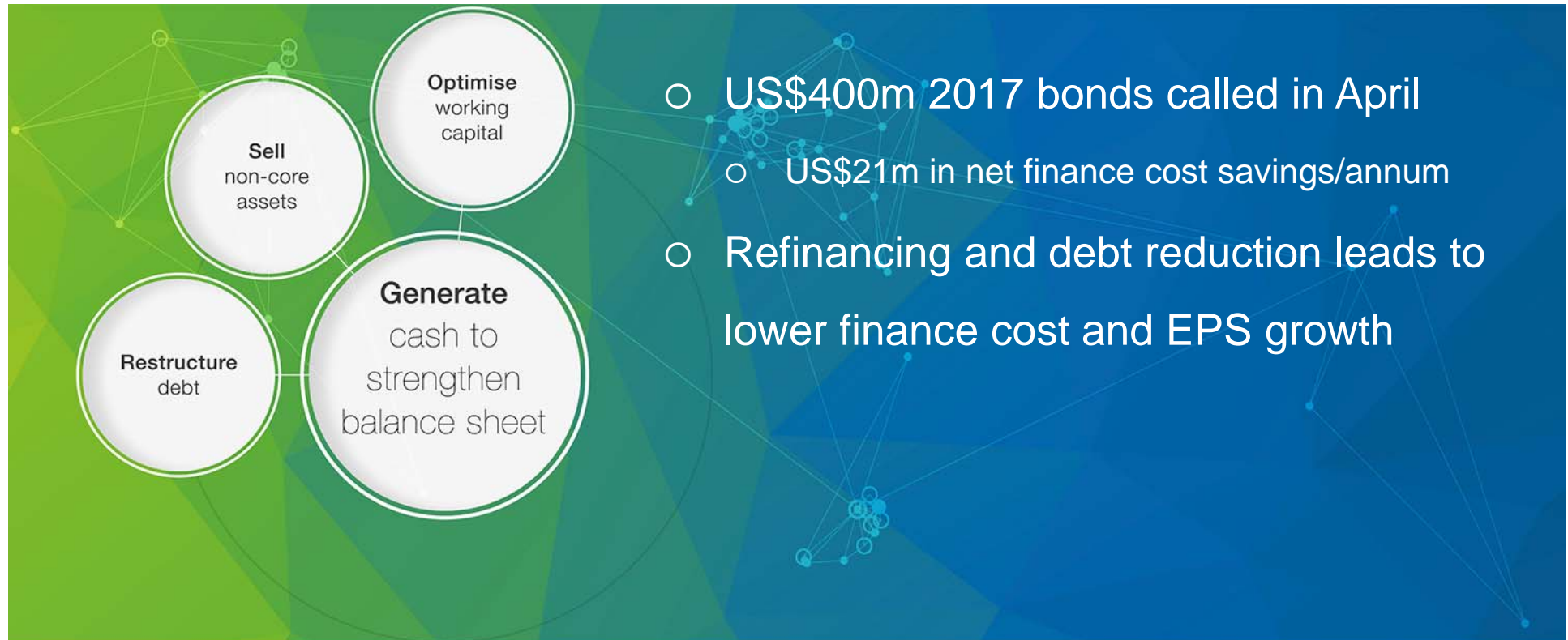
Growth through moderate investments

Investing in speciality packaging businesses in Europe and North America

- US\$140m at Maastricht, Ehingen, Alfeld and Lanaken
 - Maastricht, Ehingen 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
- US\$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


Focus areas

Generate cash to strengthen the balance sheet



Focus areas

Accelerate growth in adjacent businesses from a strong base



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

- DWP demand remains favourable; pricing currently under pressure from textile fibre prices.
- Graphic paper markets expected to remain weak - input costs and sales pricing key to profitability in coming quarters
- Continued growth in speciality packaging paper sales – conversion projects underway
- Rand/US\$ exchange rate remains materially stronger than in FY16, impacting SA margins
- Based on current market conditions, we expect Q3 FY17 EBITDA to be lower than last year. FY17 expected to be better than FY16.

Thank you –



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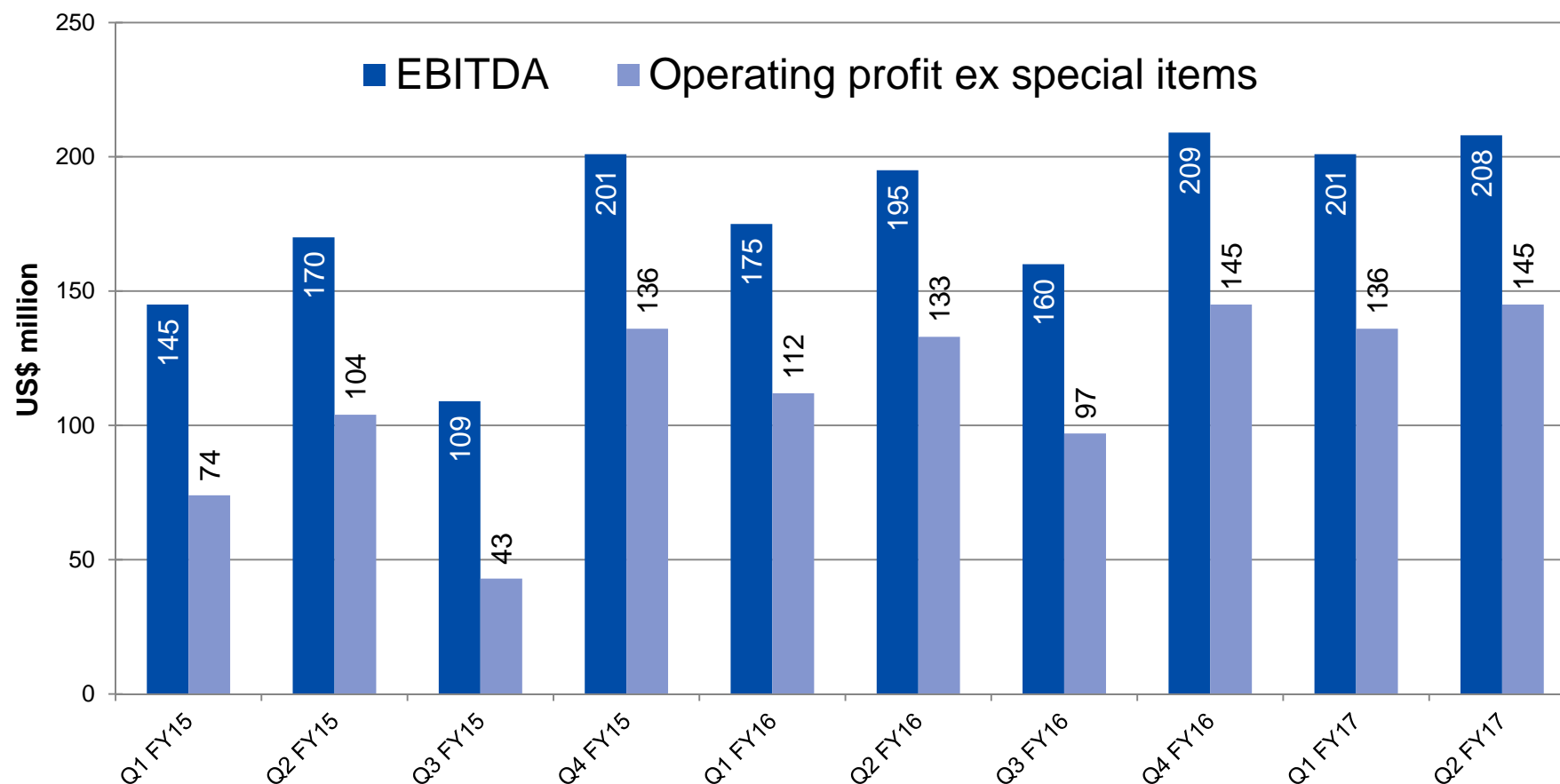
Supplementary information



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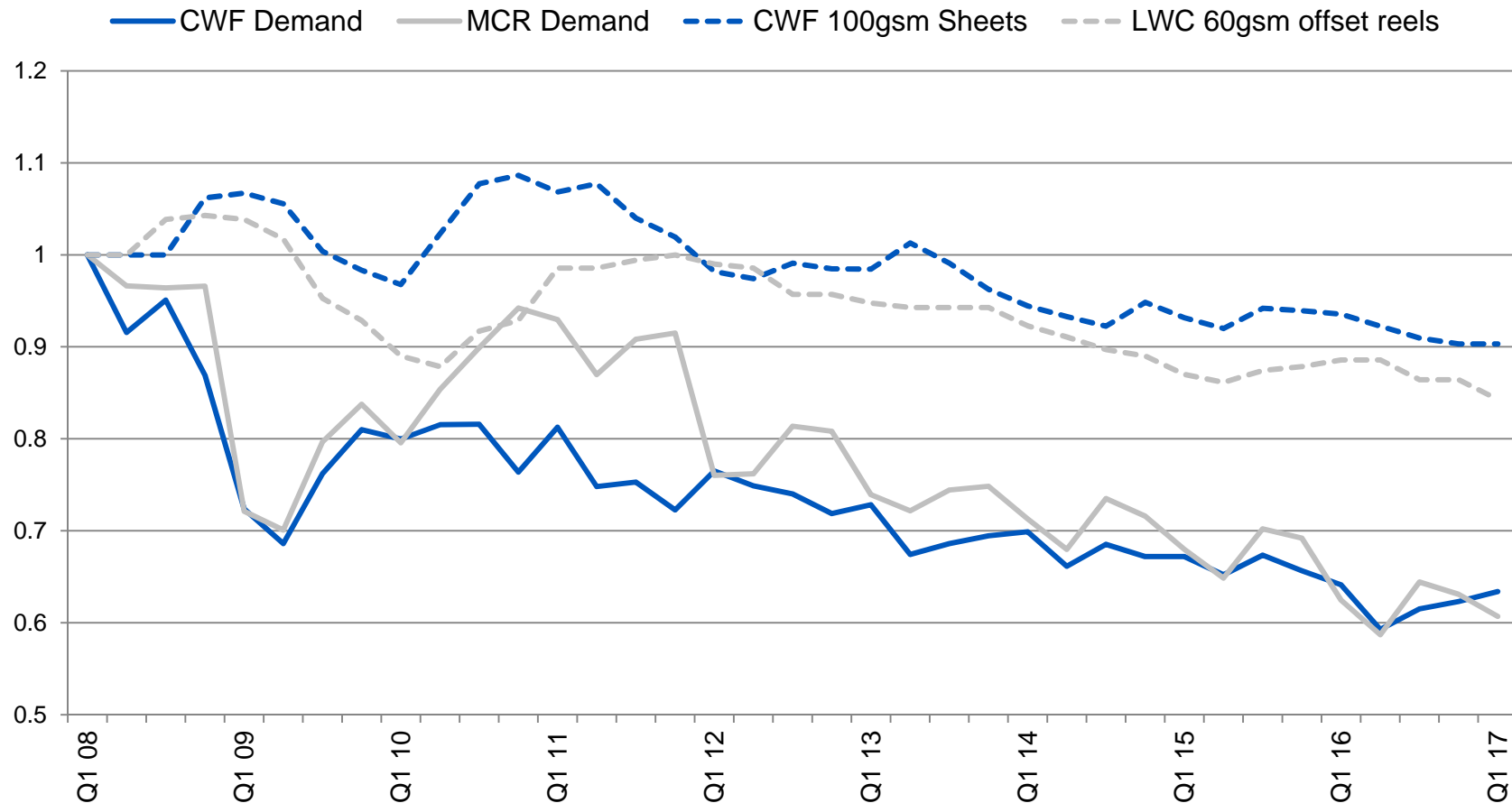
EBITDA and operating profit

Excluding special items*



Coated paper deliveries and prices

Western Europe



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	Q2 FY17	Q2 FY16	1H 17	1H 16
Tons sold ('000)	839	834	1,706	1,670
Sales (EURm)	581	604	1,183	1,205
Price/Ton (EUR)	692	724	693	722
Cost/Ton* (EUR)	658	685	653	685
Operating profit excluding special items** (EURm)	29	33	69	62

Sappi Packaging and Speciality Papers

Global production sites

Sappi Alfeld (Germany)



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

Sappi Maastricht (Netherlands)



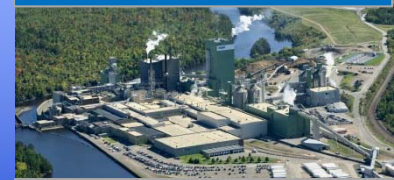
Folding Box Board - atelier™

Sappi Eching (Germany)



Topliner - Fusion®

Sappi Cloquet (USA)



Label Paper – LusterCote®

Sappi Somerset (USA)



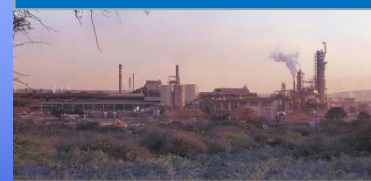
Label Paper – LusterCote® and Flex. Pack. Paper - LusterPrint®

Sappi Westbrook (USA)



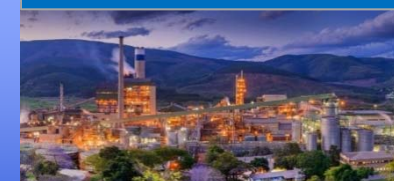
Release Paper – Ultracast® and different classic brands

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

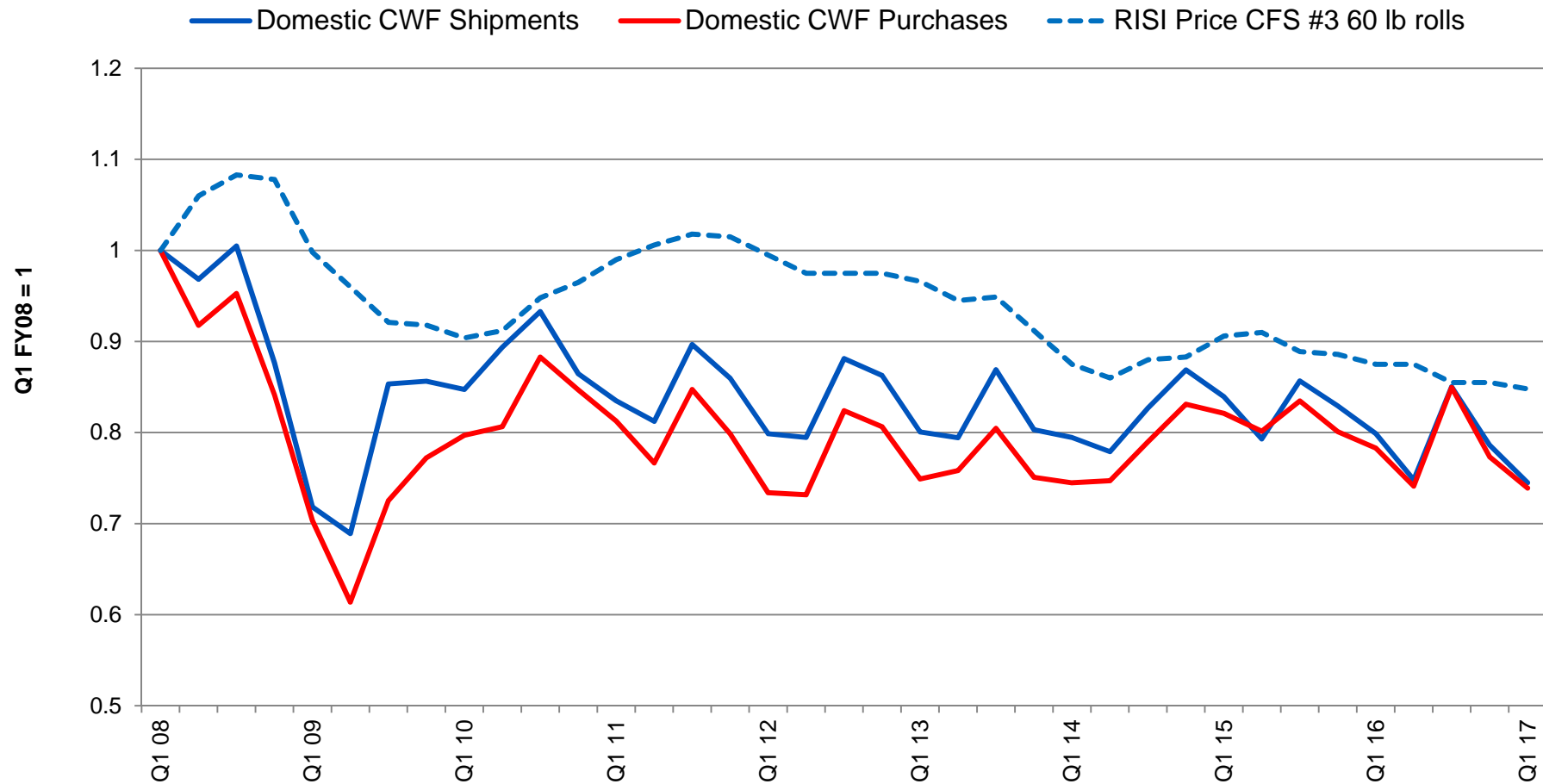
Source for growth rates: AWA, Pira and Risi

Intentional
evolution

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Coated paper prices and shipments

United States

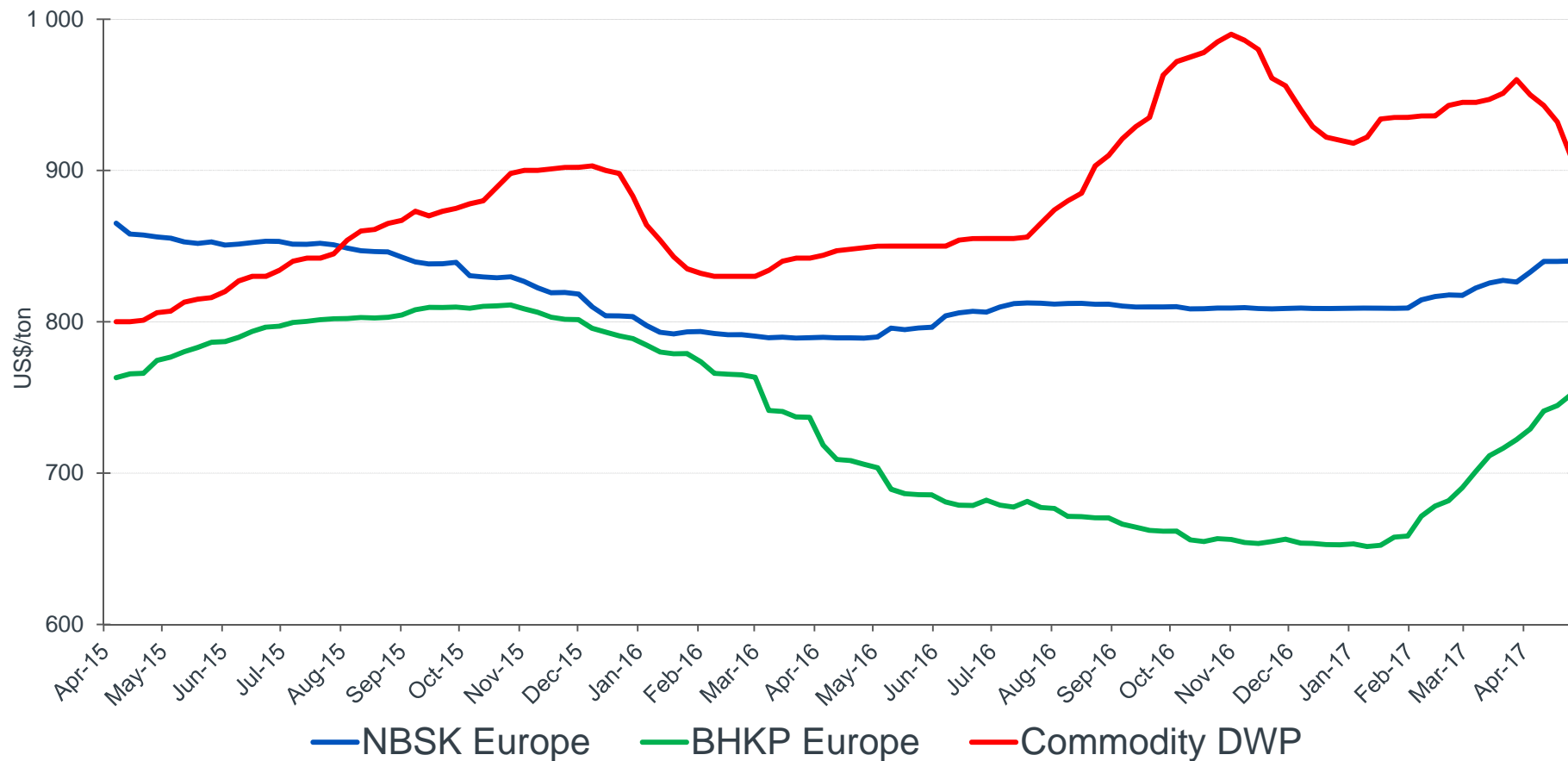


- US industry purchases defined as industry shipments, plus imports, less exports
- Source: AF&PA and RISI indexed to calendar Q1 FY08

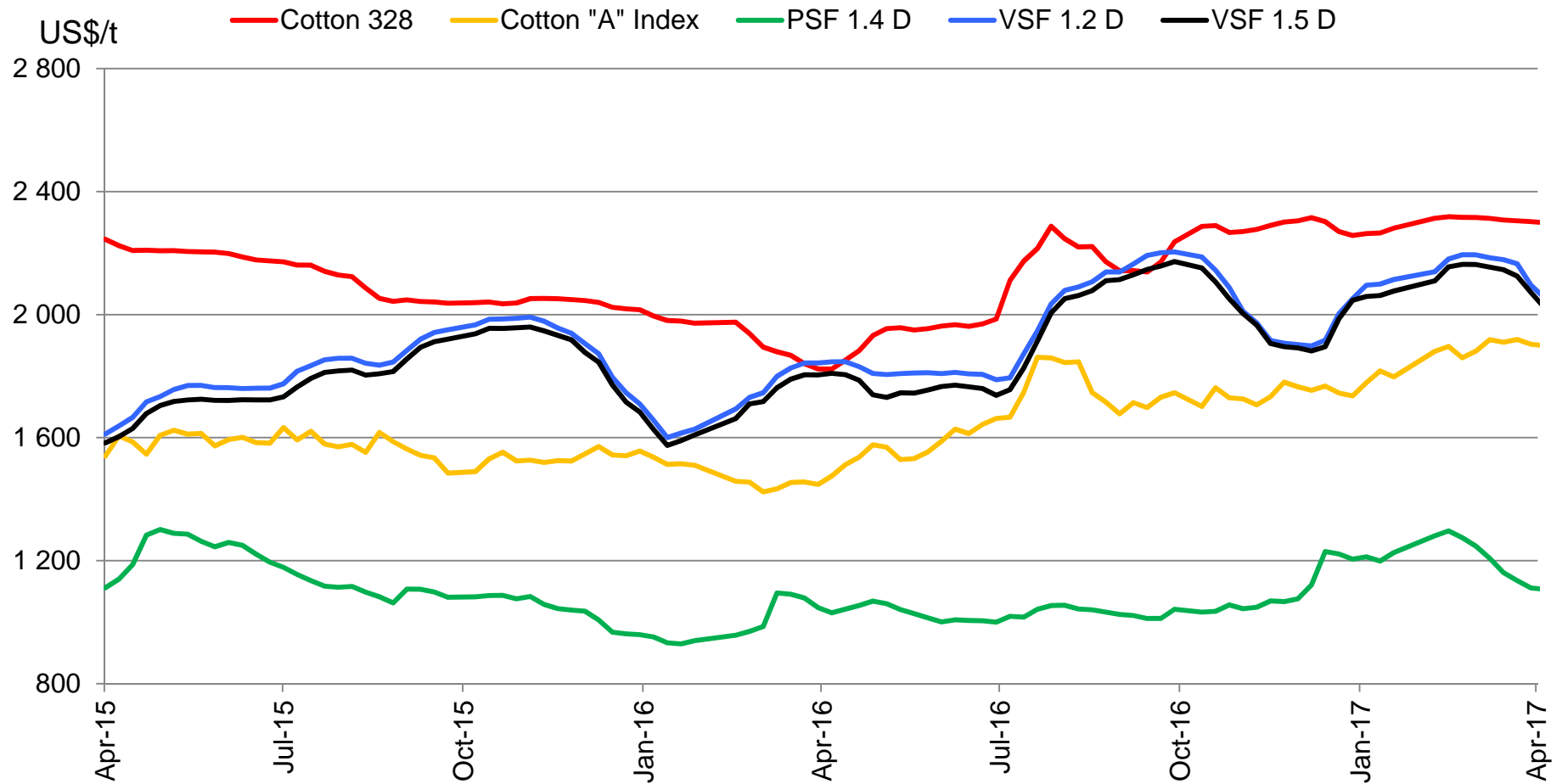
Sappi North America

	Q2 FY17	Q2 FY16	1H FY17	1H FY16
Tons sold ('000)	329	331	682	661
Sales (US\$m)	335	339	689	682
Price/Ton (US\$)	1,018	1,024	1,010	1,032
Cost/Ton* (US\$)	976	985	978	992
Operating profit excluding special items** (US\$m)	14	13	22	26

Pulp prices*



Textile Fibre Prices



Sappi South Africa

Excluding Sappi Forests

	Q2 FY17	Q2 FY16	1H FY17	1H FY16
Tons sold ('000)	408	404	772	790
Sales (ZARm)	4,619	4,376	8,641	8,171
Price/Ton (ZAR)	11,321	10,832	11,193	10,343
Cost/Ton* (ZAR)	8,093	7,725	7,972	7,553
Operating profit excluding special items** (ZARm)	1,317	1,255	2,486	2,204

Cash flow

US\$m	Q2 FY17	Q2 FY16	1H FY17	1H FY16
Cash generated from operations	203	187	405	358
Movement in working capital	(26)	(22)	(123)	(122)
Net finance costs paid	(24)	(22)	(41)	(58)
Taxation paid	(32)	(4)	(66)	(22)
Dividend paid	(59)	-	(59)	-
Cash generated from operating activities	62	139	116	156
Cash utilised in investing activities	(42)	(49)	(79)	(47)
Capital expenditure	(45)	(45)	(82)	(85)
Net proceeds on disposal of assets	1	(3)	3	38
Other movements	2	(1)	-	-
Net cash generated (utilised)	20	90	37	109

EBITDA and operating profit

Excluding special items reconciliation to reported operating profit

US\$m	Q2 FY17	Q2 FY16	1H FY17	1H FY16
EBITDA excluding special items*	208	195	409	370
Depreciation and amortisation	(63)	(62)	(128)	(125)
Operating profit excluding special items*	145	133	281	245
Special Items* - gains (losses)	(3)	22	4	33
Plantation price fair value adjustment	1	26	12	28
Net restructuring provisions	-	(1)	-	(4)
Profit on disposal of asset held for sale and other assets	-	1	-	16
BEE charge	(1)	(1)	(1)	(1)
Fire, flood, storm and other events	(3)	(3)	(7)	(6)
Segment operating profit	142	155	285	278

Thank you



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