

Q2 FY20 financial results

7 May 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*
- *The Covid-19 pandemic*
- *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 – Q2 FY20

Excluding special items*

EBITDA* \$131m
Down 30% Y-o-Y

Net debt/EBITDA 3.1X**

EPS* 4 US cents

- Historically low DP prices and reduced volumes significantly impacting profitability
- Packaging and specialities segment continued to grow volumes and profitability
- Significant market share gains in graphics paper business
- Matane integration on track – included in DP segment
- Strong liquidity with cash on hand US\$268 million and US\$642 million from undrawn committed RCF

• Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 25 in our Q2 FY20 financial results booklet (available on www.sappi.com) for a definition of special items.

** Adjusted covenant leverage ratio

EBITDA* reconciliation

Q2 FY20 to Q2 FY19

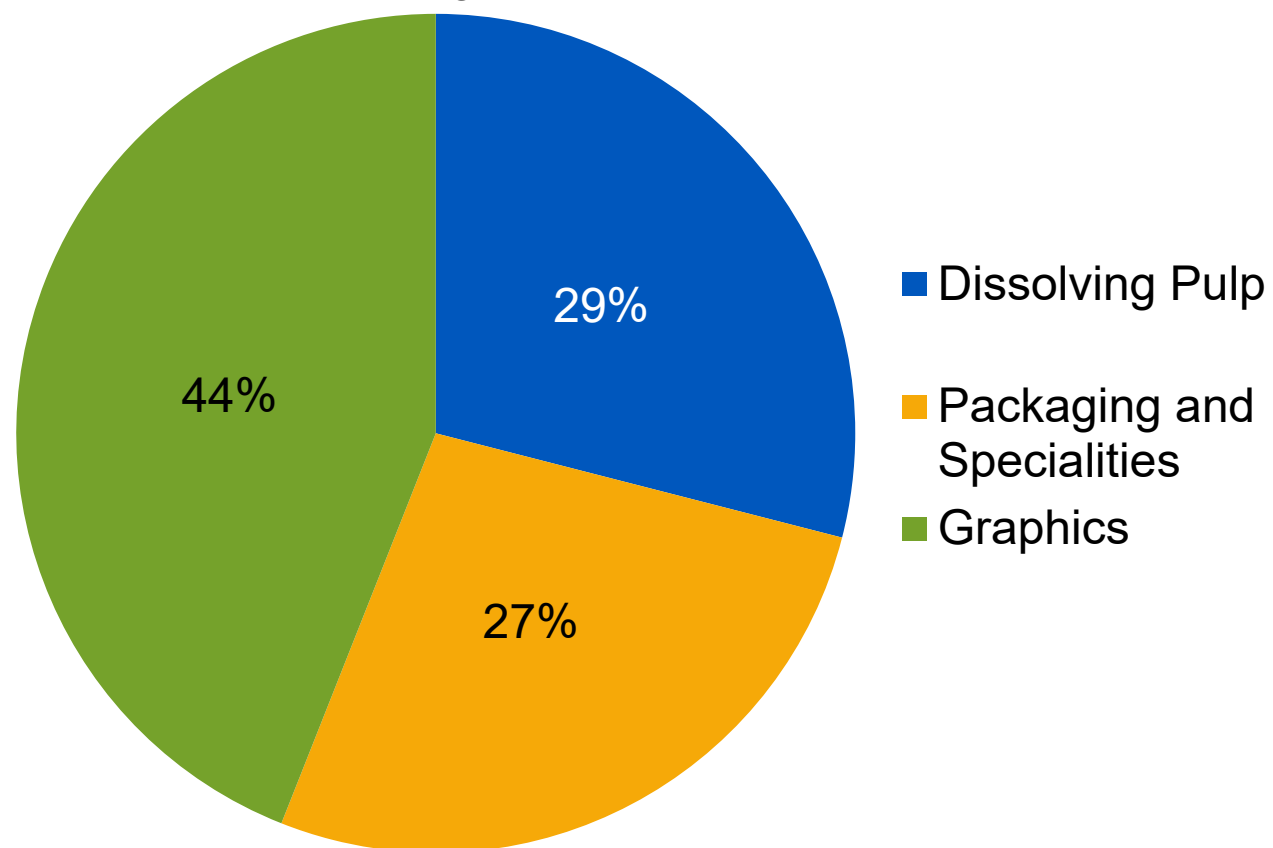


Notes:

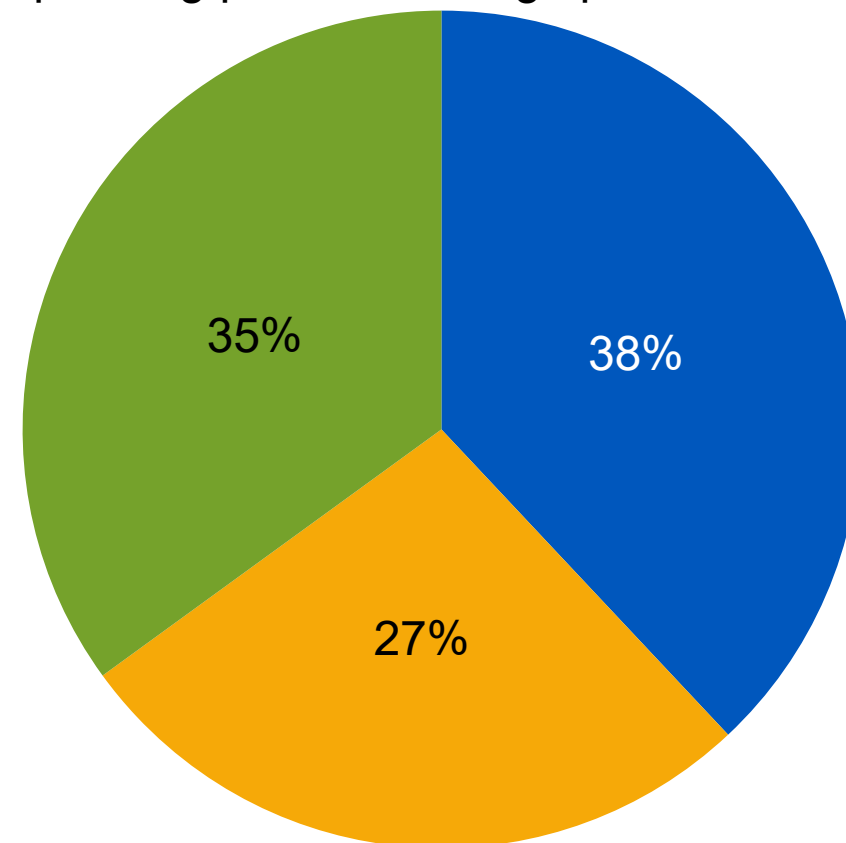
1. All variances were calculated excluding Sappi Forestry.
2. "Currency conversion" reflects translation and transactional effect on consolidation.
3. EBITDA* = EBITDA excluding special items

Product contribution split – LTM

EBITDA excluding special items

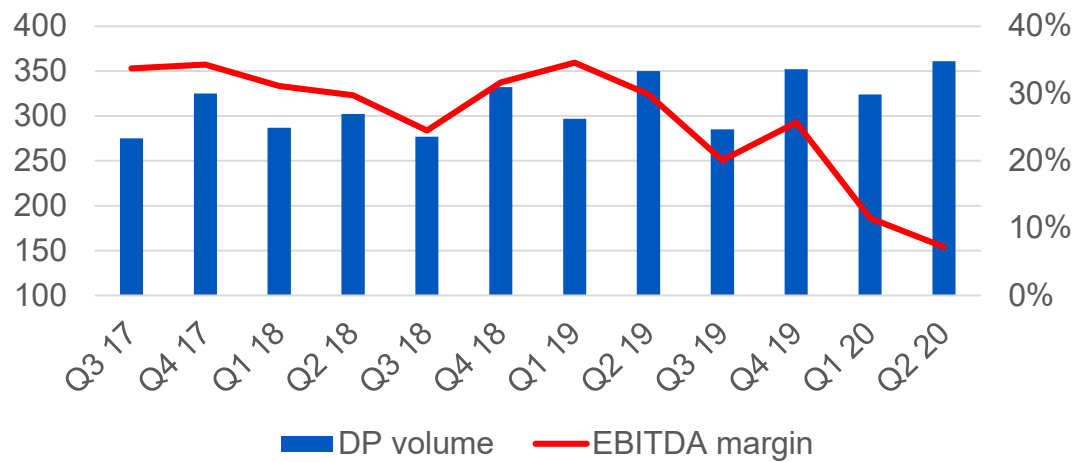
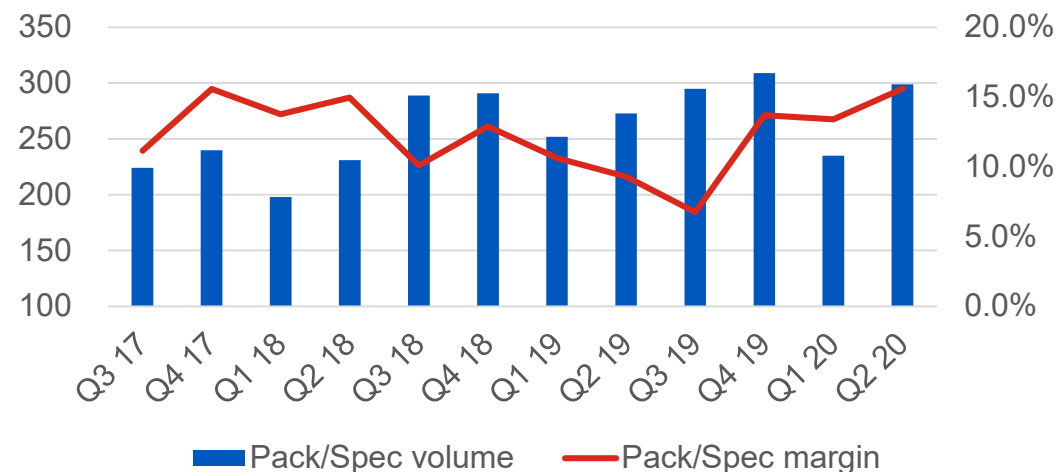
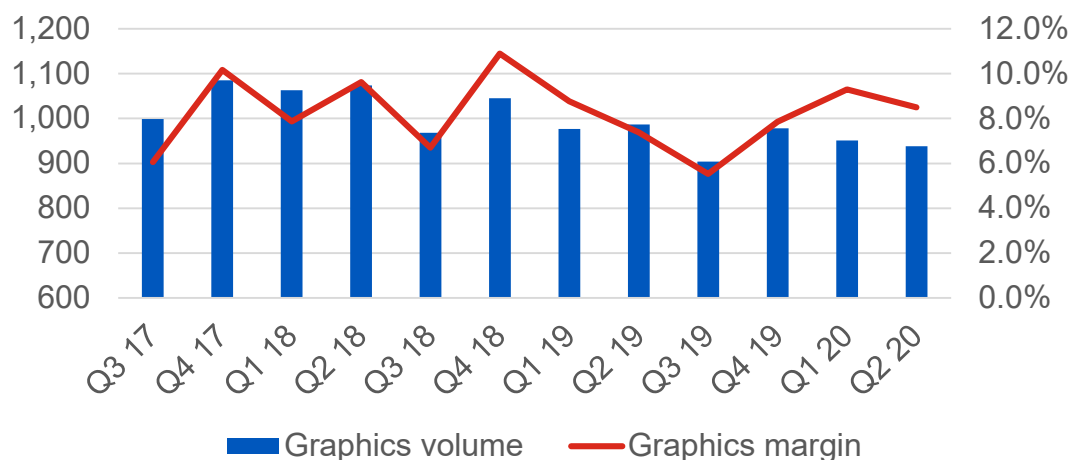


Operating profit excluding special items



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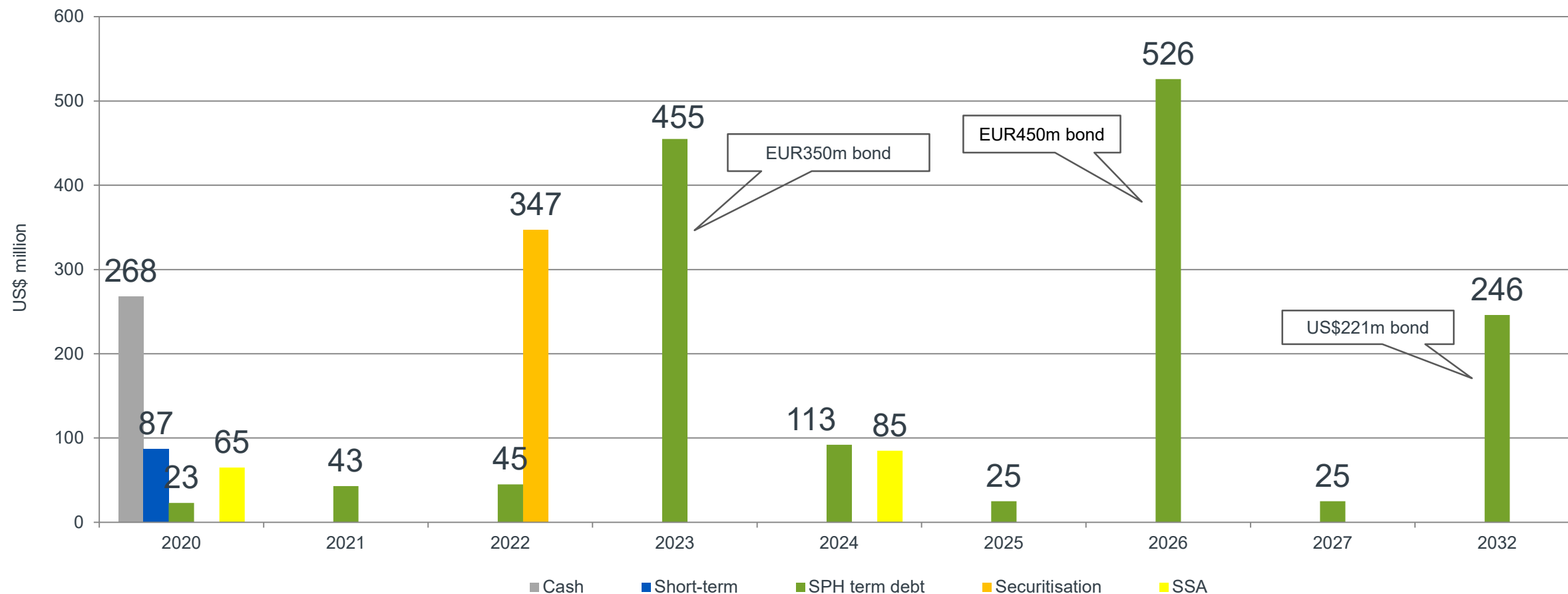
Segment volume & EBITDA* margin



EBITDA* = EBITDA excluding special items

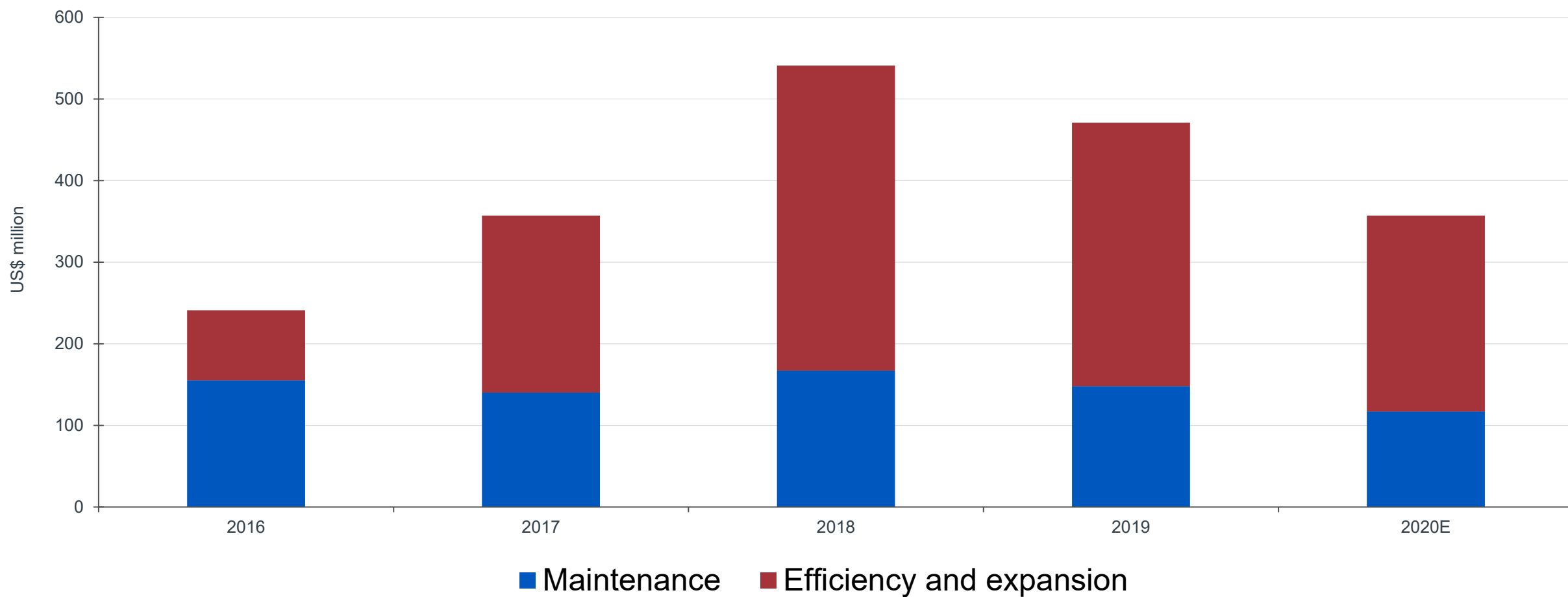
Maturity profile*

Fiscal years



*Graph excludes US\$97 million in IFRS16 leases – Average maturity of 4 years

Capex



Segmental overview



Sappi Europe

Sales Tons -6%
year-on-year

Sales -13%
year-on-year

EBITDA* +5%
year-on-year

- Market share gains in CWF offsetting weak market demand – Kirkniemi strike impacted CM volumes
- 20kt commercial downtime required, US\$5.6m EBITDA impact
- Packaging and specialities volumes continue to grow
- Variable costs declining as pulp, chemicals and energy prices move downward.
- Impact of Covid-19 apparent in last 2 weeks

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Sappi North America

Sales Tons +19%*
year-on-year

Sales +2%
year-on-year

EBITDA Flat**
year-on-year

- Good growth in packaging volumes, with improved product mix and machine efficiency aiding pricing and lowering costs
- Profits impacted by weak DP pricing
- 10% volume growth in graphics due to market share gains. Prices on average 6% below last year.
- Paper pulp, energy and chemicals costs lower, supporting margins.
- Covid-19 impacts felt in last two weeks ITO order intake

* Volumes up 5% excl. Matane

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Sappi South Africa

Sales Tons -7%
year-on-year

Sales -26%
year-on-year

EBITDA* -58%
year-on-year

- Historically low DP prices and reduced volumes have significant impact on profitability – Sales price US\$245/t lower y-o-y.
- SA containerboard sales volumes recovered from the previous quarter but were 4% below last year.
- Weak domestic economy affected newsprint volumes, however, tissue and office paper sales improved.
- Variable costs were lower, as reduced chemical prices offset higher energy prices.

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Covid-19 update

- 15 reported cases of Covid-19 in the Group – 12,800 employees
- Pandemic procedures implemented globally
- Protocols introduced and entrenched, i.e.
 - Screening, testing and positive cases
 - Social distancing
 - Deep cleaning of facilities
- Operations continuity, through
 - Change in shift systems, rotational teams
 - Health protocols
 - Change management
- Unions and Community engagements
 - Ensuring alignment and support
- Operational impact
 - Condino Mill shut for a week in March
 - Declared an essential service in South Africa
 - Now matching production to demand
 - Raw material supplies uninterrupted

Covid-19 update - cash management

- Financing activities
 - Negotiated covenant waiver for 12 months (to March 2021) – minimum liquidity requirement
 - Repaid SA bonds with bridging finance
- Reviewed capital expenditure commitments – US\$80m reduction in H2
 - Force majeure on Saiccor expansion project – completion now expected in FY2021
- Revised procurement savings target for 2020 – from US\$64m to US\$105m
- Fixed costs savings of >10% based on April experience

Covid-19 update - cash management

- Working capital management
 - Restricting stock build
 - Resisting delays in receivables – Overdues remain constant with prior quarters
- Applying for government assistance where criteria is met
 - Differs by region, mostly from May onwards
- Short-interval control
 - Daily cash monitoring and weekly cash flow forecasts
 - Invoice and order intake monitoring

Covid-19 update - markets

○ Graphic paper

- Lower advertising spend and lockdowns resulting in significant retail slowdown causing significant reduction in graphic paper demand globally.
- Similar impact to 2009 so far, where demand reduced some 30%
- Declining input costs supporting margins
- Prices drifting downwards on lower costs – industry operating rates maintained through temporary shutdowns

○ Packaging and Speciality

- Many categories positively affected to date – food and hygiene related products
- Others negatively impacted by lockdowns - advertising or supply chain related
- Lower pulp and chemical prices supporting margins

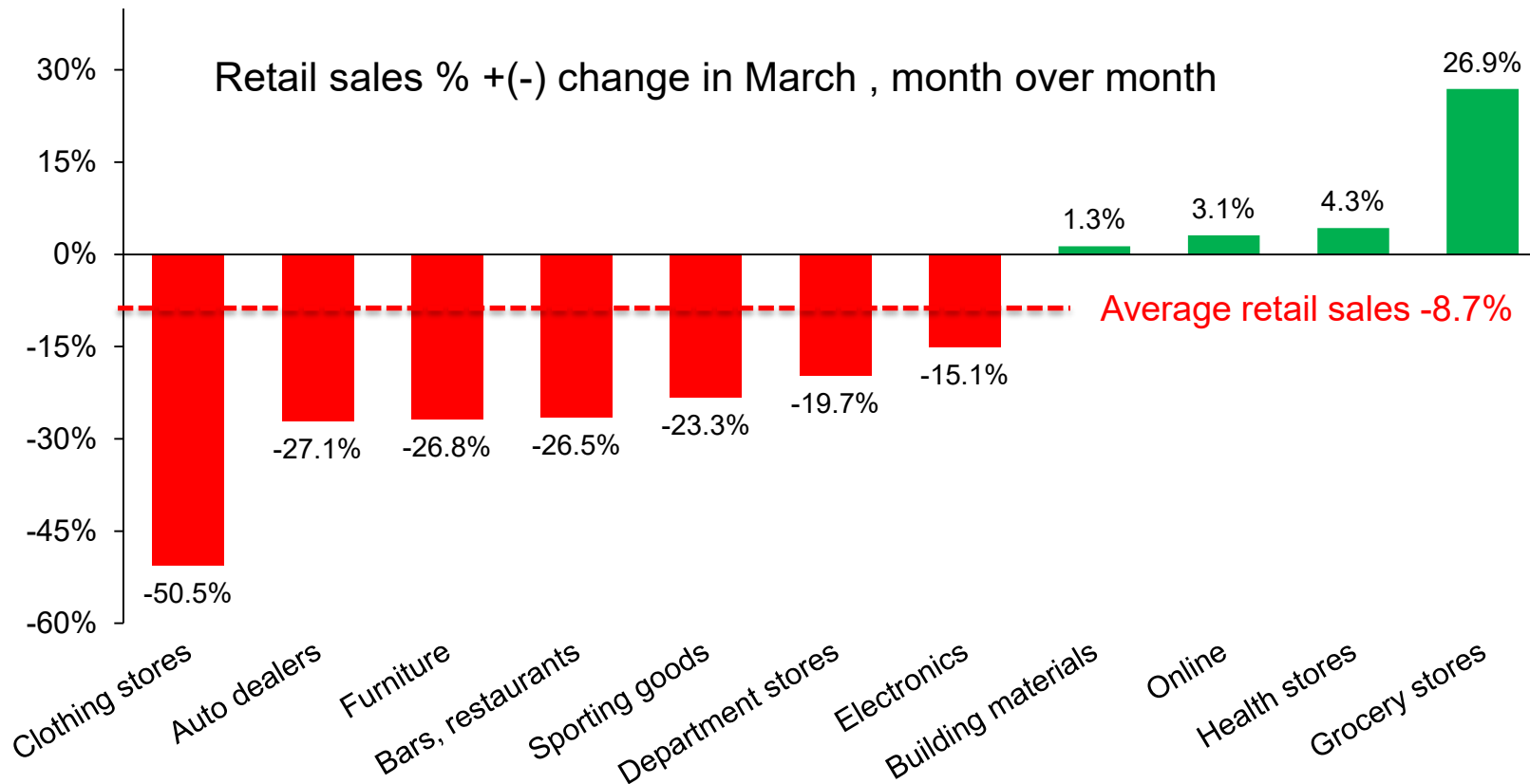
Covid-19 update - markets

○ Dissolving Pulp

- Retail lockdowns in many geographies have impacted entire textile supply chain
 - Growth in E-commerce/online sales not enough to offset impact on brick and mortar stores
 - Initial signs in China point to a slow recovery post lock-down
- DP demand down approximately 35%, similar to 2009, though duration then was short-lived.
- Exchange rate movements lowering costs for many producers, DP price trending lower in line with VSF pricing.
- VSF production impacted by lockdowns in some regions – excess capacity remains an issue with lower demand.
- BCTMP sales holding up well, and pricing has improved over the last few months

US retail sales March 2020 - 8.7% MoM by category

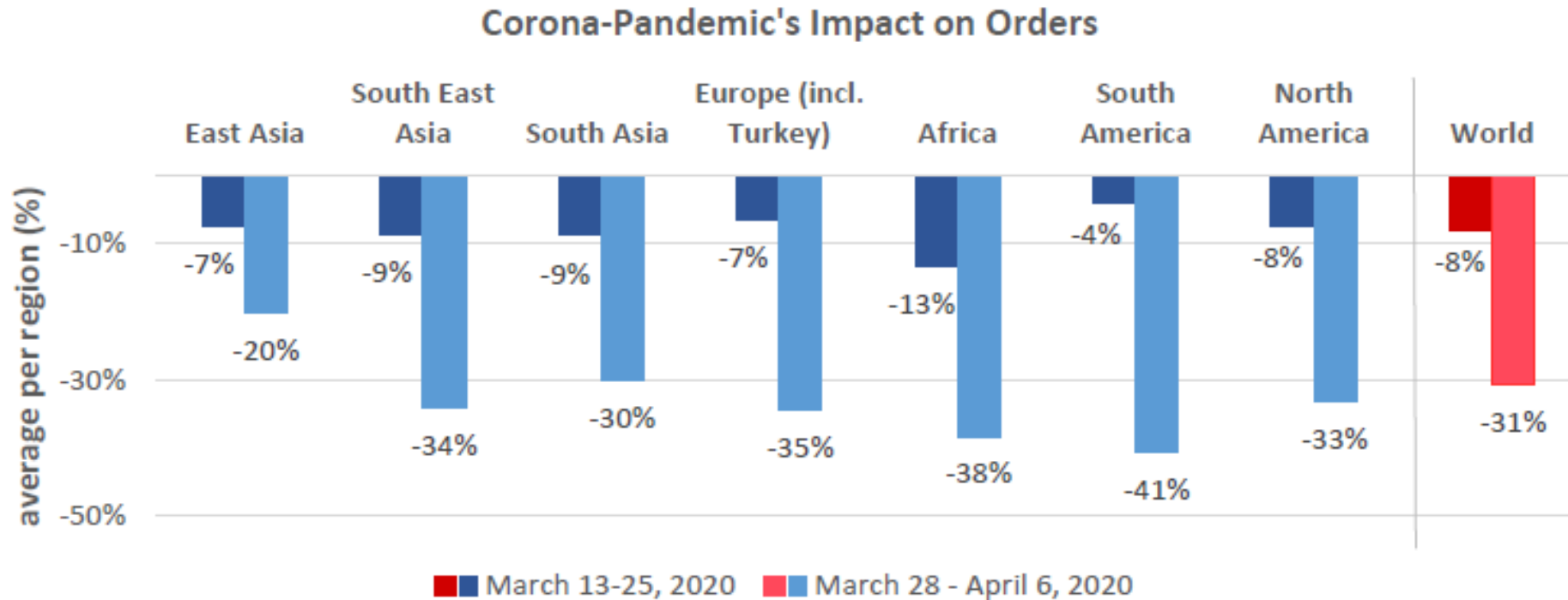
The coronavirus pandemic triggered steep drops in several areas of March retail sales



Source: US Commerce Department

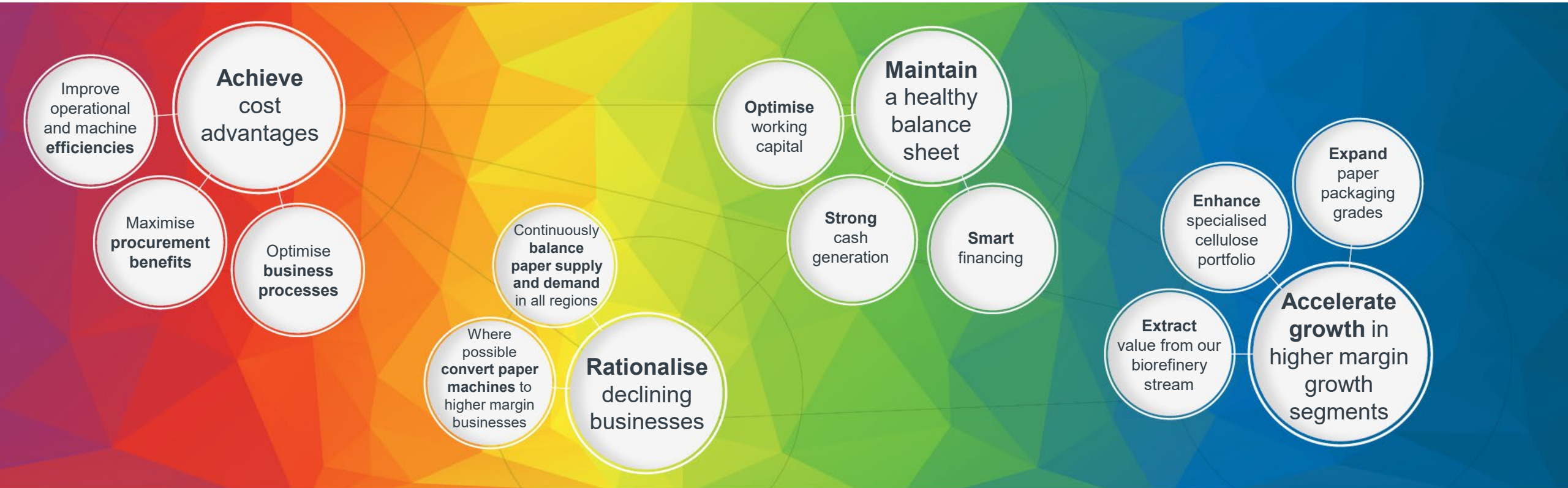
Covid-19 impact on Textile orders

International Textiles Manufacturers Federation (Swiss based)



Source: ITMF Survey (March 28-April 6, 2020)

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.

Group Strategy - update

- Achieve Cost advantages
 - Group efficiency and procurement saving initiatives in FY20: US\$105m – an increase of US\$41m
 - Saiccor expansion delay due to Force Majeure: startup in FY21- will improve efficiency and lower costs once complete
- Rationalise declining businesses
 - Rapidly matching production to demand: Stockstadt PM2 and Lanaken PM7 temporary shuts
- Maintain a healthy balance sheet
 - Covenant waiver through to March '21
 - Strict focus on cash generation and liquidity
 - Shifted US\$80m of capex to 2021
- Accelerate Growth in higher margin growth segments
 - Ramp up of board grades at Somerset and Maastricht – somewhat slower due to delays in trials
 - Continue to evaluate barrier coating opportunities for growth

Outlook

- DP and Graphic paper demand expected to be significantly impacted
- Focus on liquidity and cash flow – various cost savings measures implemented, excess production curtailed, non-essential capital expenditure delayed and optimisation of working capital.
- Packaging and specialities segment continues to grow and recent conversions will continue to ramp up. Citrus outlook encouraging which will positively impact SA containerboard sales.
- Saiccor expansion project completion likely only in FY2021 due to force majeure declaration.
- Annual maintenance shuts shifted as late as possible and capital expenditure for remainder of 2020 expected to be US\$200 million.

Thank you

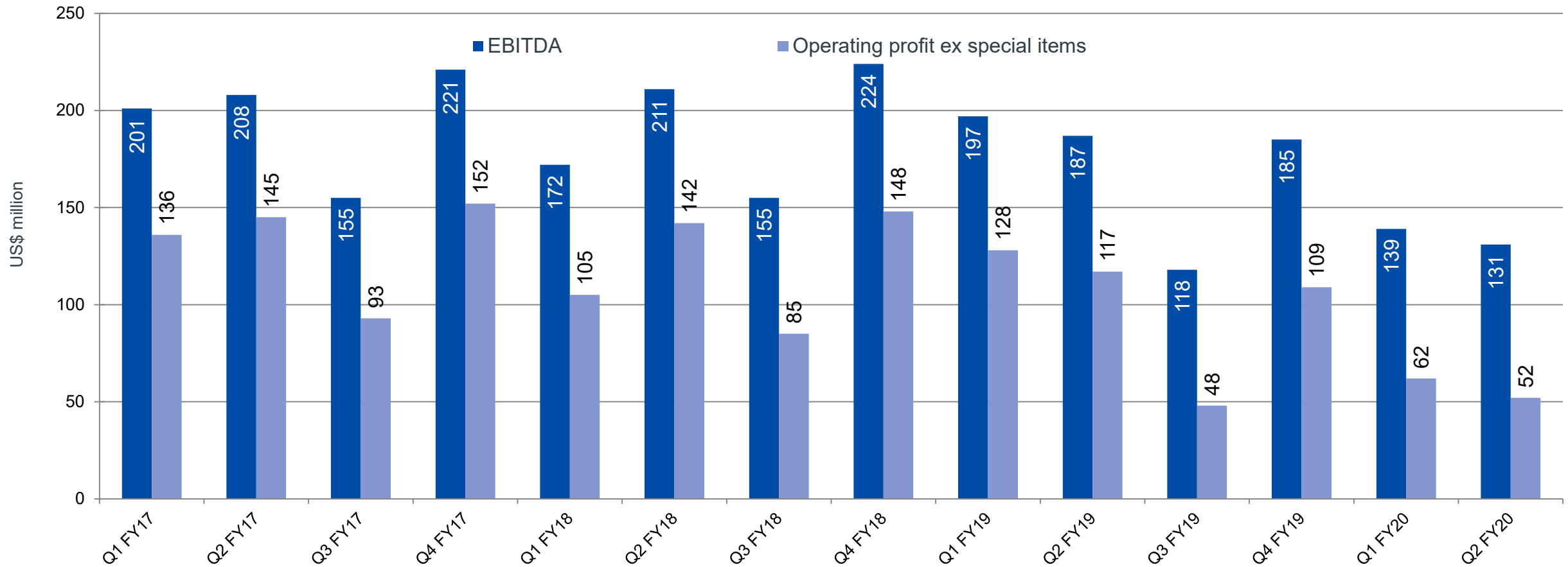


Supplementary information



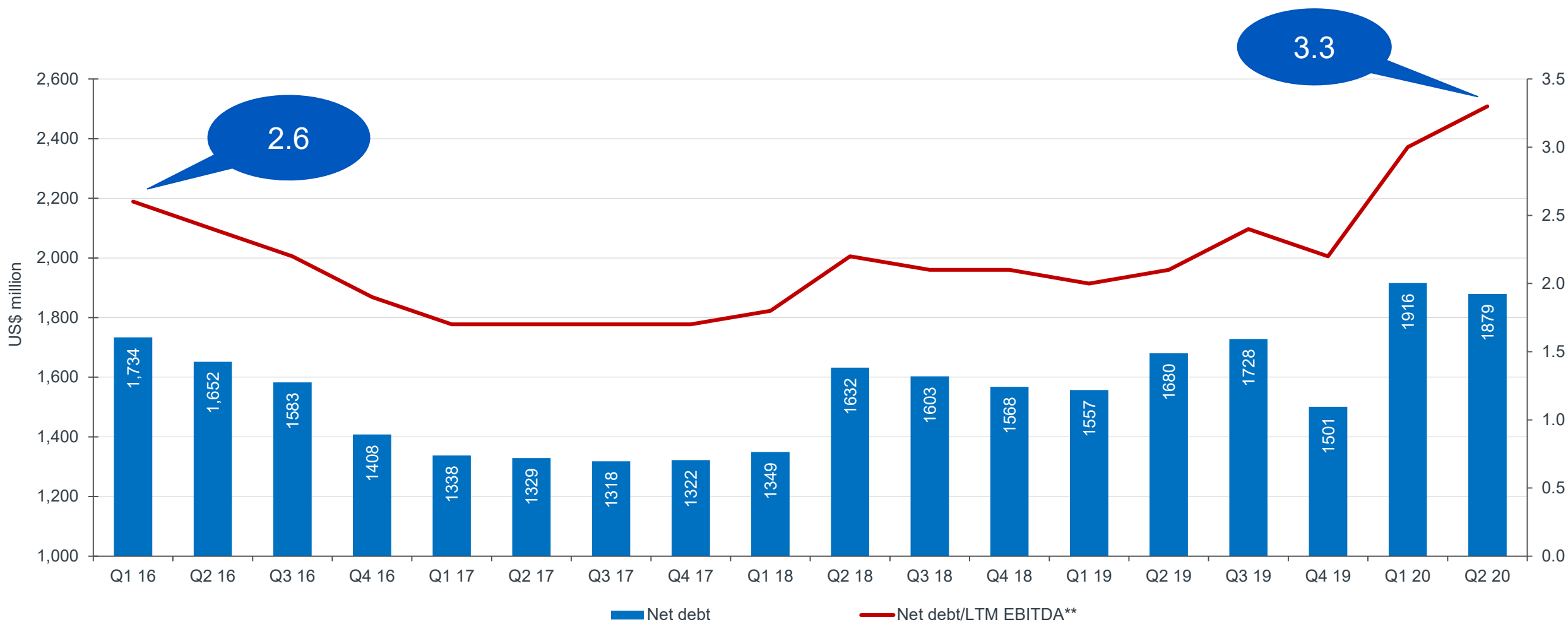
EBITDA and operating profit

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.



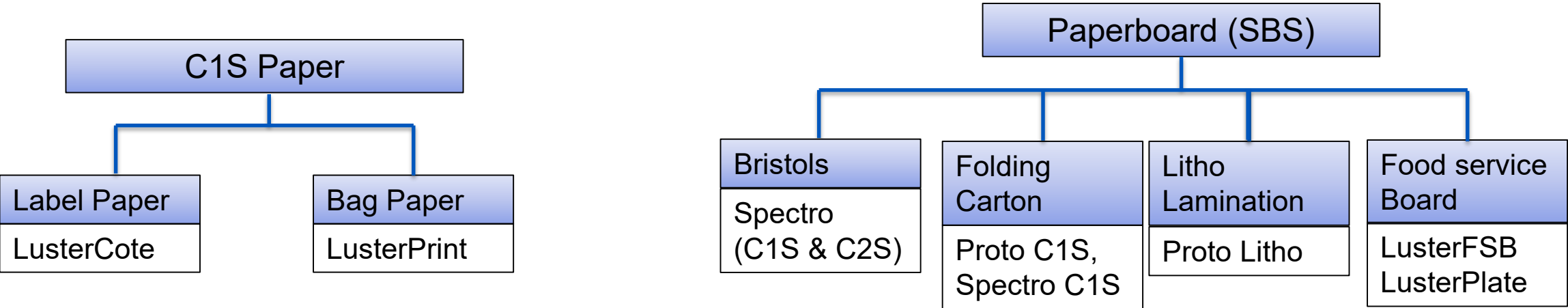
Functional Papers
Cutting-edge barrier paper solutions.
Made of 100% future.



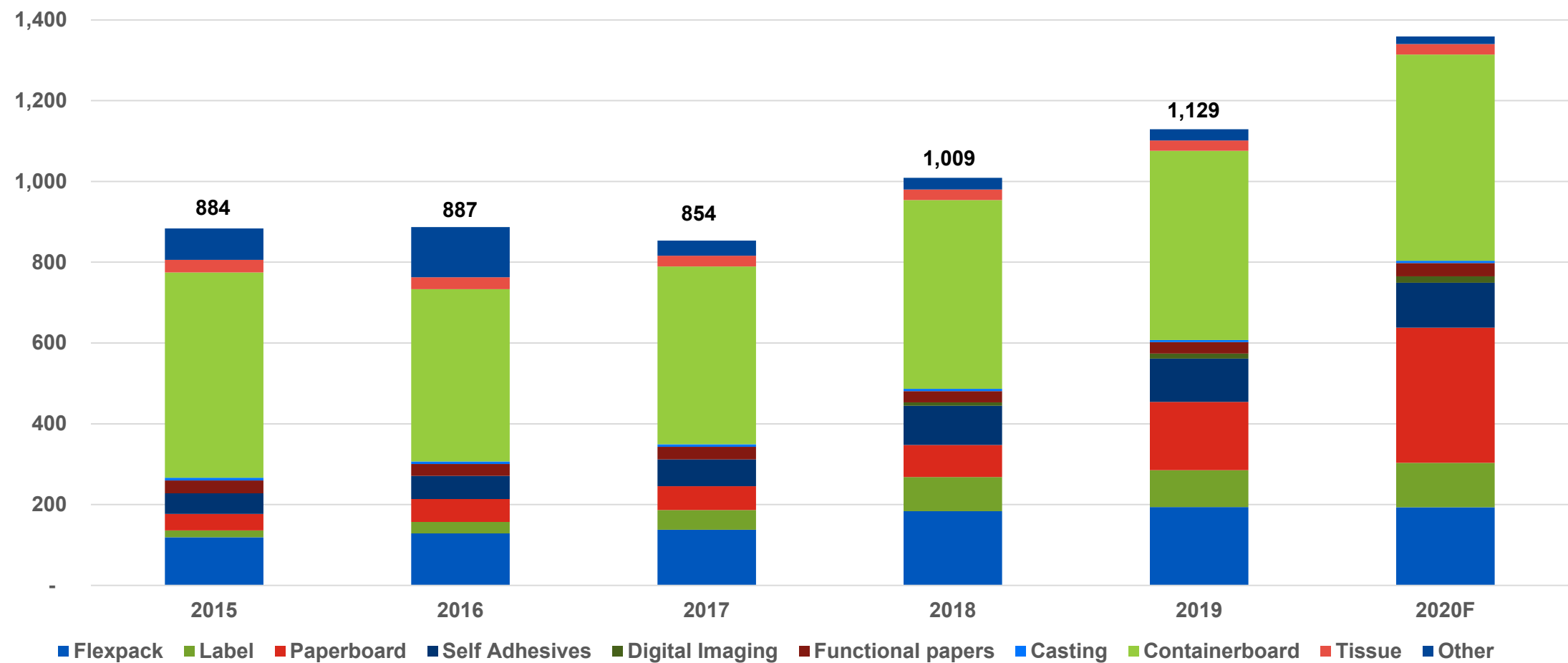
Paperboard
Unpack your true potential.



Sappi North America packaging offering



Packaging & specialties volume growth 2015 to 2020



Note: The 2020 forecast has not been updated for the impact of Covid-19.

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

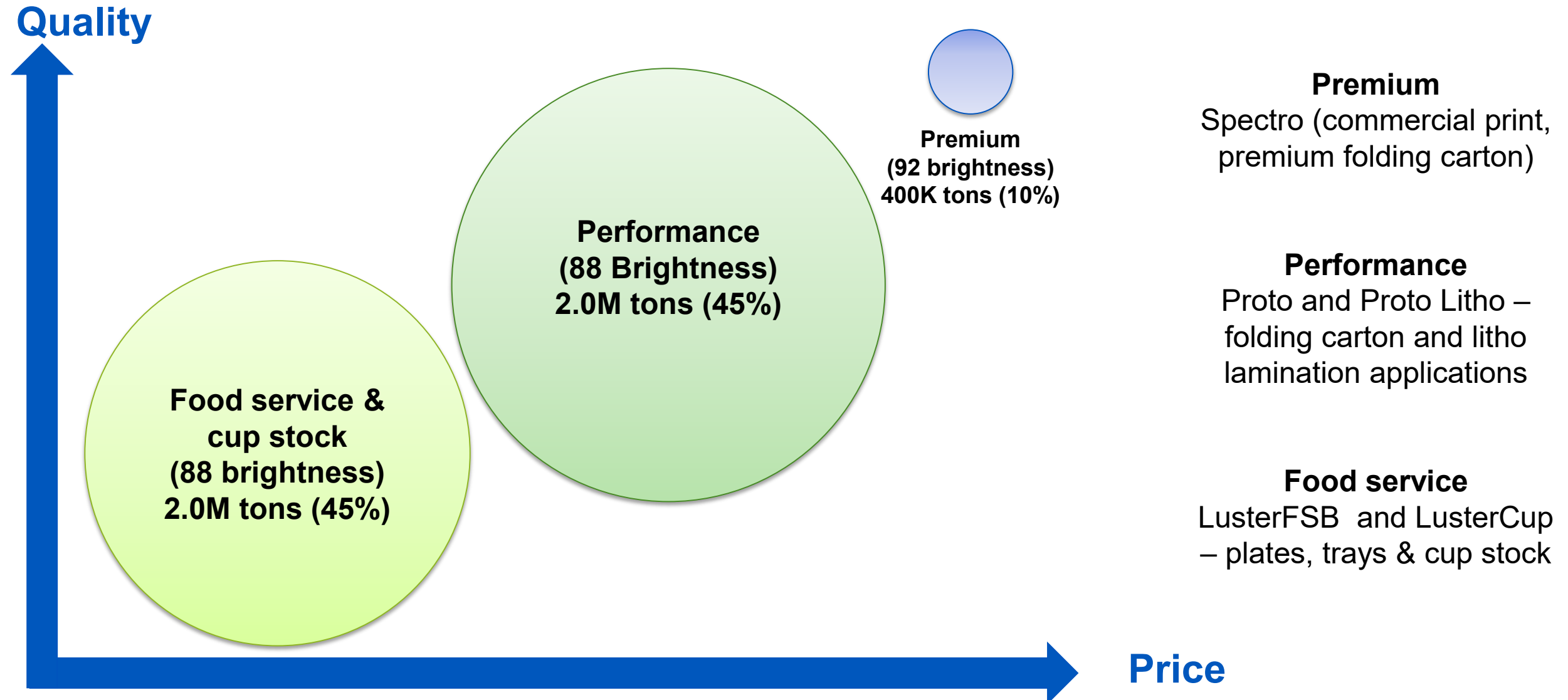
Consequences

- 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

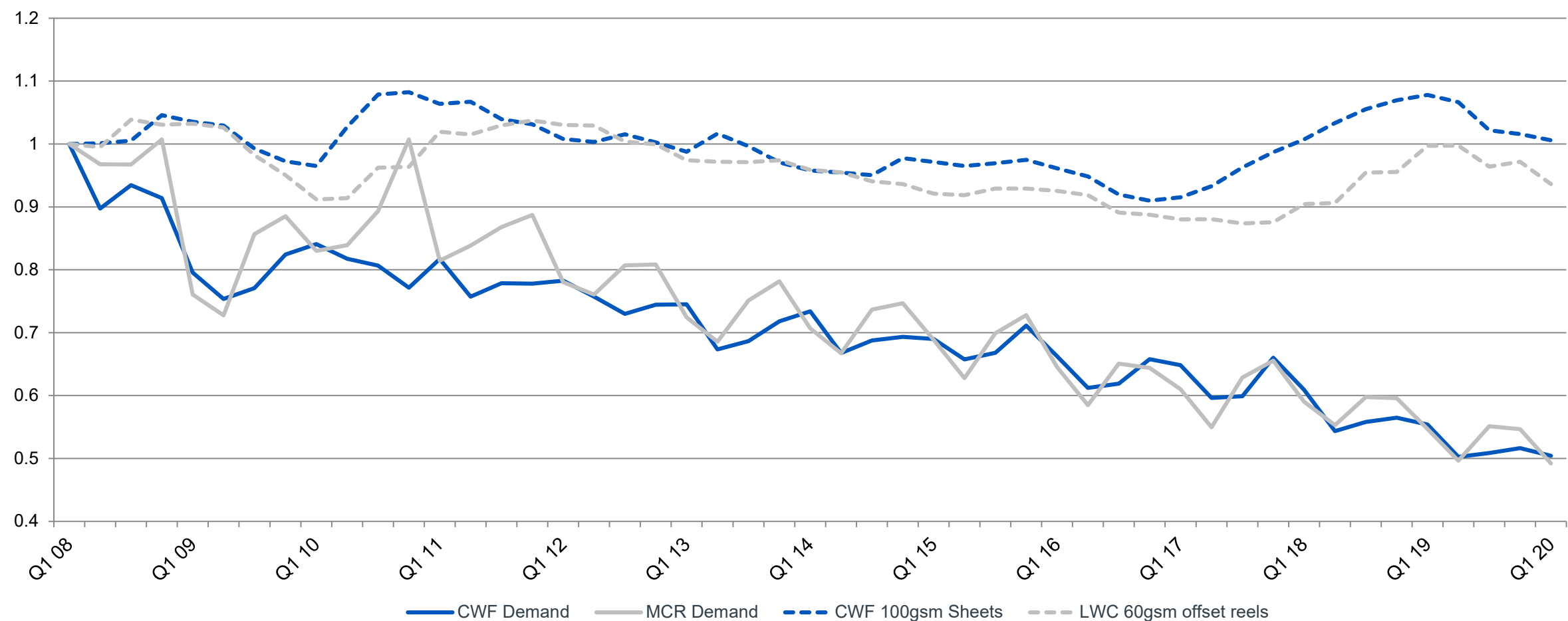
	Q2 FY20	Q1 FY20	Q2 FY19
Tons sold ('000)	793	795	842
Sales (EURm)	606	619	675
Price/Ton (EUR)	764	779	802
Cost/Ton* (EUR)	733	737	773
Operating profit excluding special items** (EURm)	25	33	24

* 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

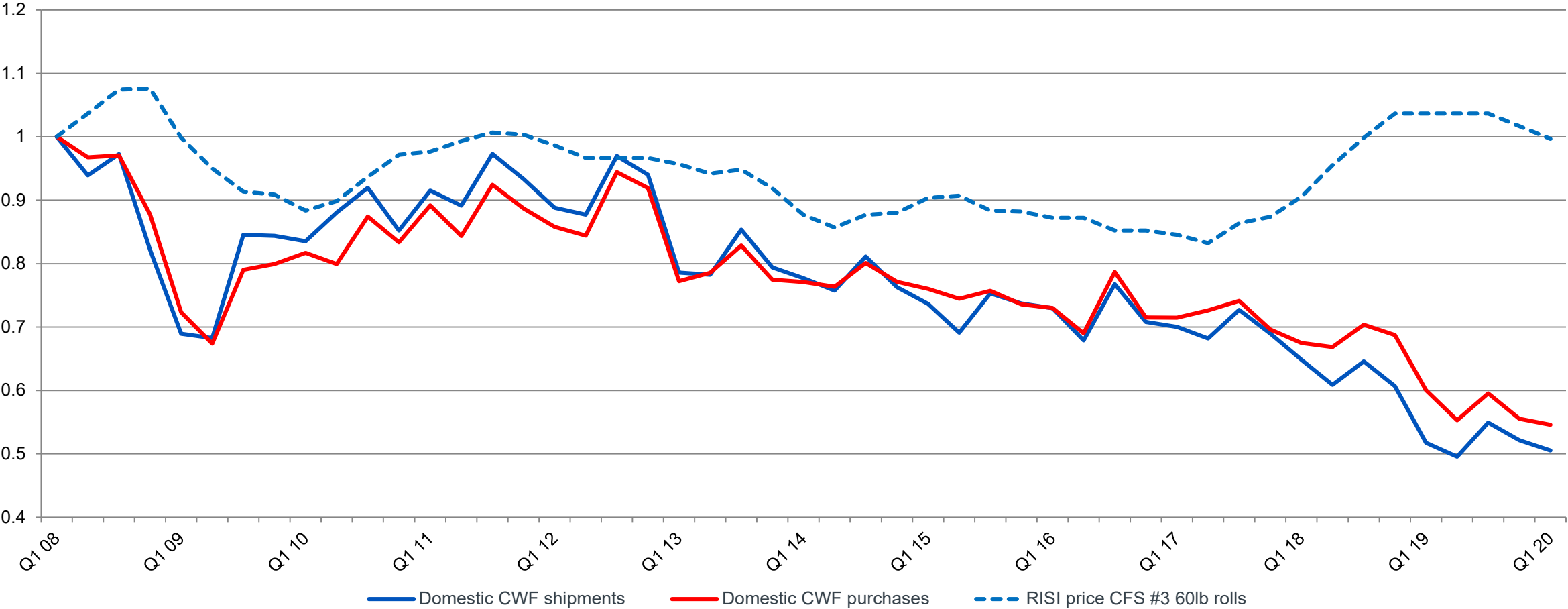
	Q2 FY20	Q1 FY20	Q2 FY19
Tons sold ('000)	416	377	350
Sales (USDm)	387	370	378
Price/Ton (USD)	930	981	1,080
Cost/Ton* (USD)	921	979	1,051
Operating profit excluding special items** (USDm)	4	1	10

* 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.

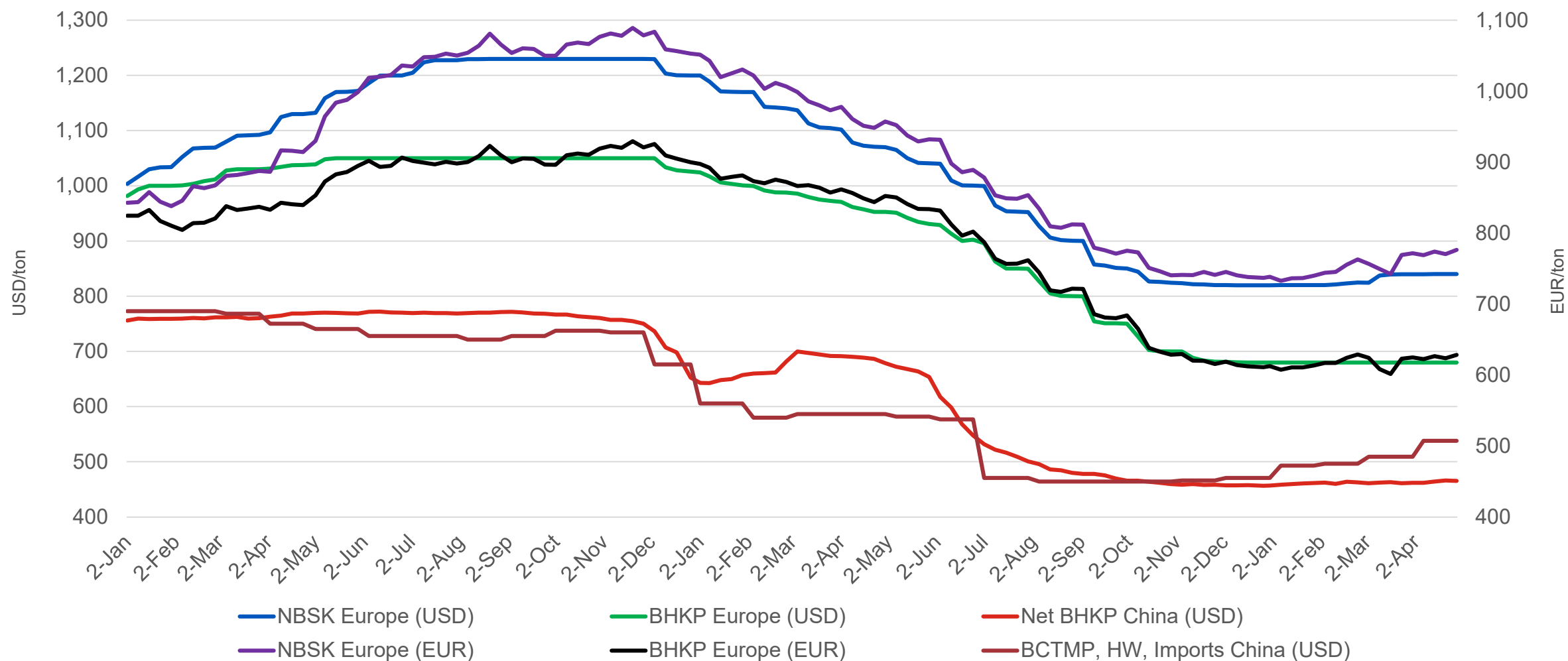
Sappi South Africa

	Q2 FY20	Q1 FY19	Q2 FY19
Tons sold ('000)	389	338	418
Sales (ZARm)	3,979	3,549	4,982
Price/Ton (ZAR)	10,229	10,500	11,919
Cost/Ton* (ZAR)	9,404	9,541	9,237
Operating profit excluding special items** (ZARm)	321	324	1,121

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

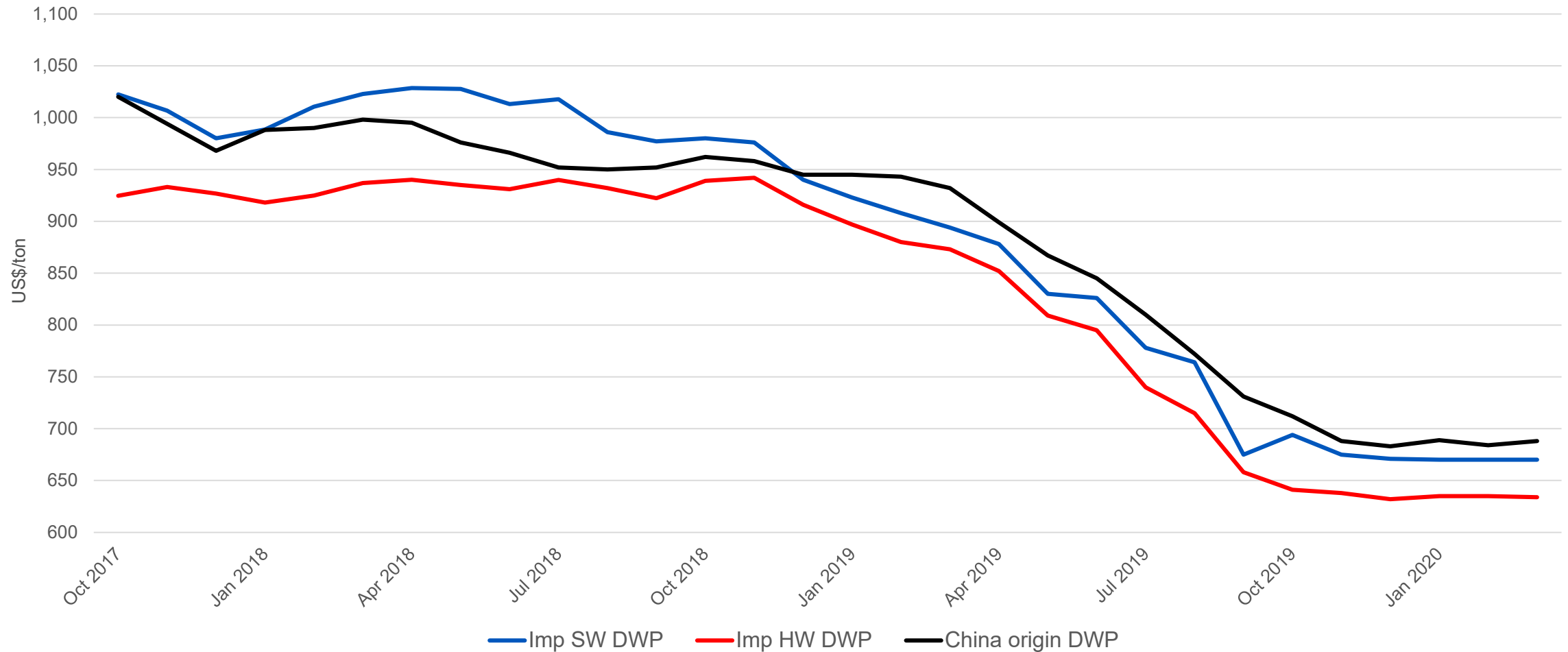
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Paper pulp prices*



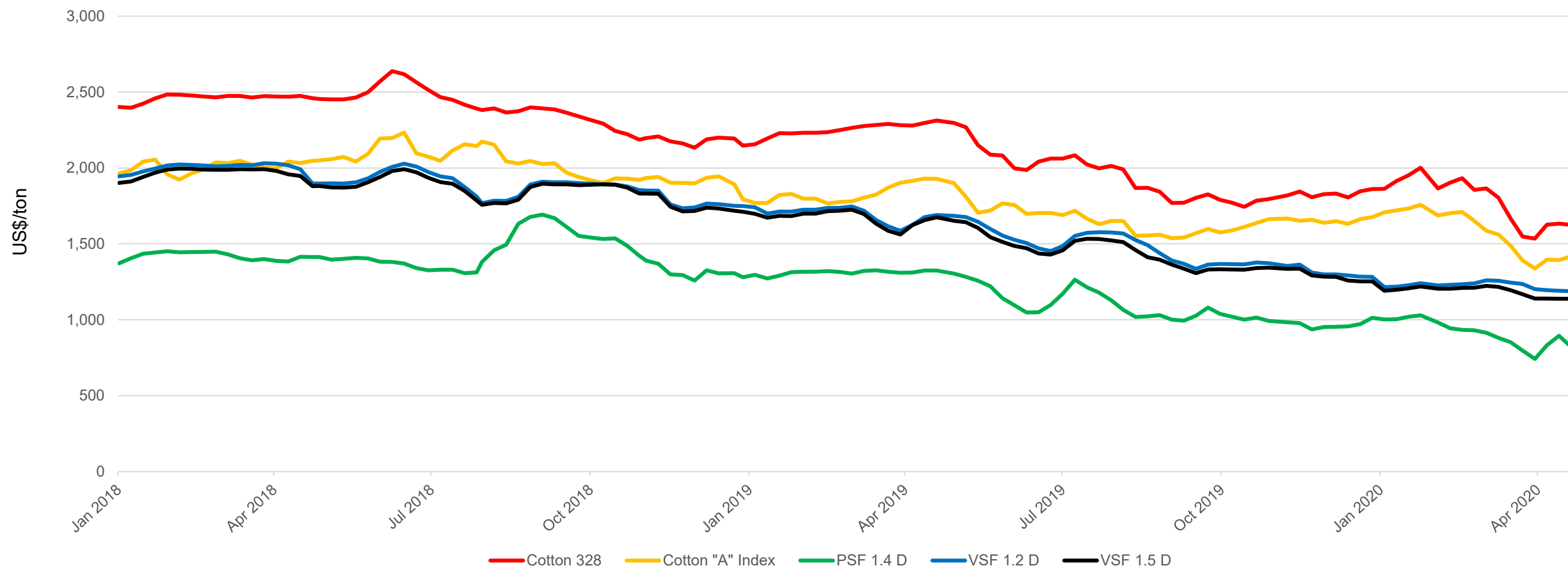
* Source: FOEX, CCF group, RISI.

Dissolving pulp prices*



* Source: CCF group

Textile fibre prices*



* Source: CCF group

Cash flow

US\$m	Q2 FY20	Q1 FY20	Q2 FY19
Cash generated from operations	116	136	182
Movement in working capital	(14)	(76)	(80)
Net finance costs paid	(18)	(35)	(21)
Finance income received	1	2	1
Taxation (paid) refund	(11)	(32)	(43)
Dividend paid	-	-	(92)
Cash generated from operating activities	74	(5)	(53)
Cash utilised in investing activities	(74)	(273)	(95)
Capital expenditure	(70)	(112)	(95)
Proceeds on disposal of assets	-	-	1
Acquisition of subsidiary	-	(158)	-
Other non-current asset movements	(4)	(3)	(1)
Net cash generated (utilised)	-	(278)	(148)

EBITDA and operating profit

Excluding special items* reconciliation to reported operating profit

US\$m	Q2 FY20	Q1 FY20	Q2 FY19
EBITDA excluding special items*	131	139	187
Depreciation and amortisation	(79)	(77)	(70)
Operating profit excluding special items*	52	62	117
Special items* - gains (losses)	(29)	(7)	-
Plantation price fair value adjustment	3	6	10
Acquisition cost	-	(5)	-
Net restructuring provisions	(12)	(1)	-
Profit (loss) on disposal and written off assets	-	-	(3)
PPE impairments	(11)	-	(11)
PPE impairment reversals	-	-	8
Fire, flood, storm and other events	(9)	(7)	(4)
Operating profit	23	55	117

* Refer to page 25 in our Q2 FY20 results booklet (available on www.sappi.com) for a definition of special items.

Thank you

