

# Q3 FY16 financial results

4 August 2016



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](http://www.sappi.com).*

# Summary



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# Highlights

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Q3 FY16

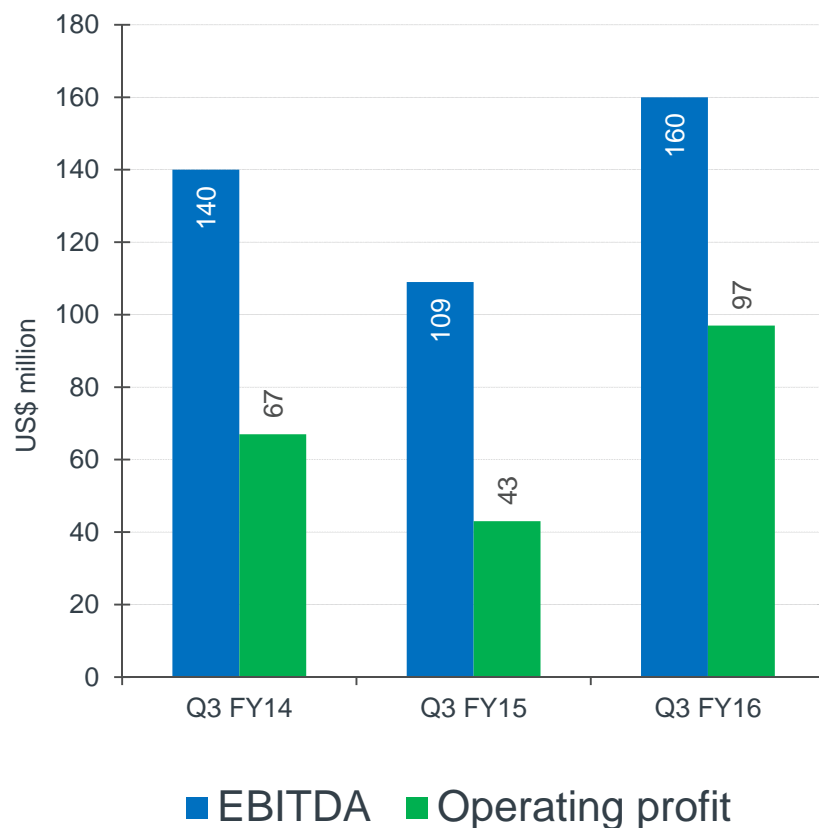
- EBITDA ex-special items US\$160m (Q3 FY15 US\$109m)
- Profit for the period US\$32m (Q3 FY15 US\$4m)
- EPS ex-special items 11 US cents (Q3 FY15 2 US cents)
- Net debt US\$1,583m, down US\$334m year-on-year



# EBITDA and operating profit



Excluding special items\*



## Key ratios

	Q3 FY14	Q3 FY15	Q3 FY16
Net Debt/ LTM EBITDA	3.7	3.1	2.2
Interest Cover	3.4	3.9	7.0
EBITDA %	9.4	8.6	13.1
ROCE %	7.8	5.7	14.0

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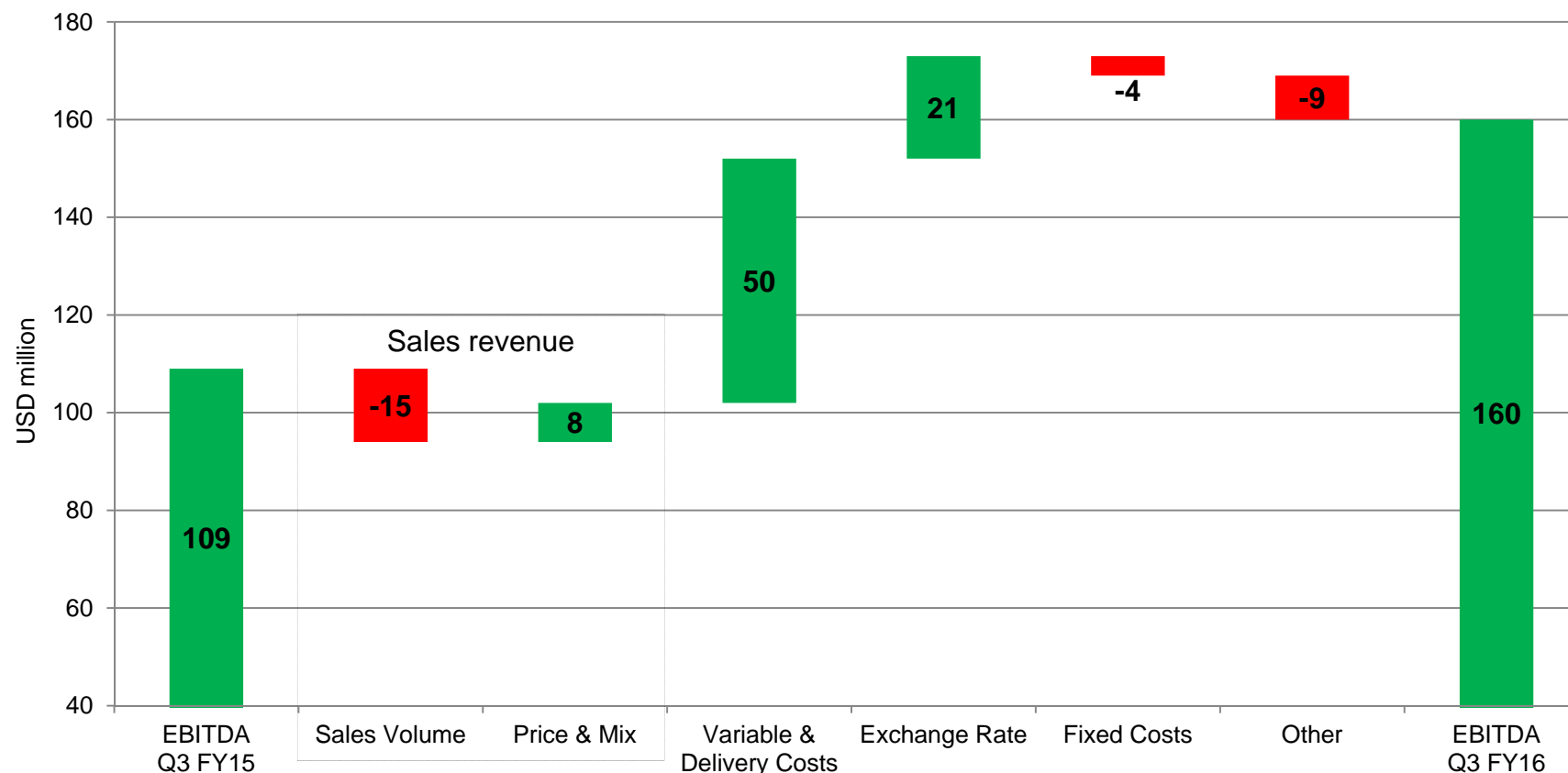
\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q3 FY16 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.



# EBITDA Bridge\*



Q3 FY15 to Q3 FY16

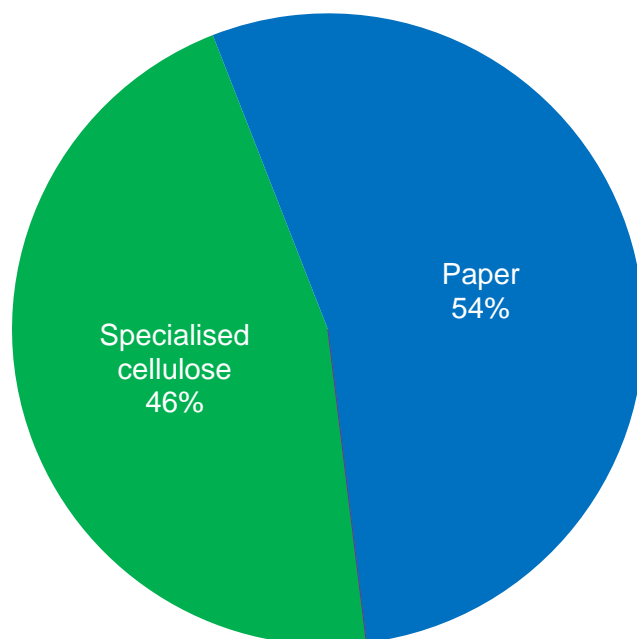


- All variances calculated excluding Sappi Forestry.
- "Exchange rate" reflects the impact of changes in the average rates of translation of foreign currency results.

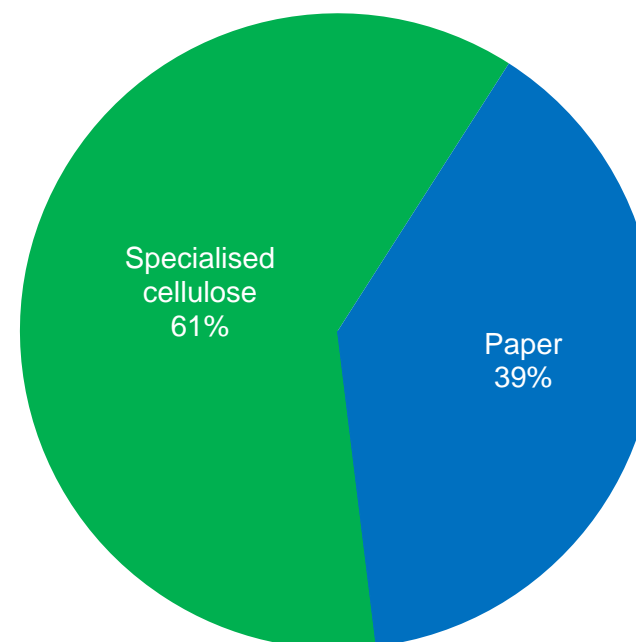
# Product contribution split - LTM



EBITDA excluding special items\*



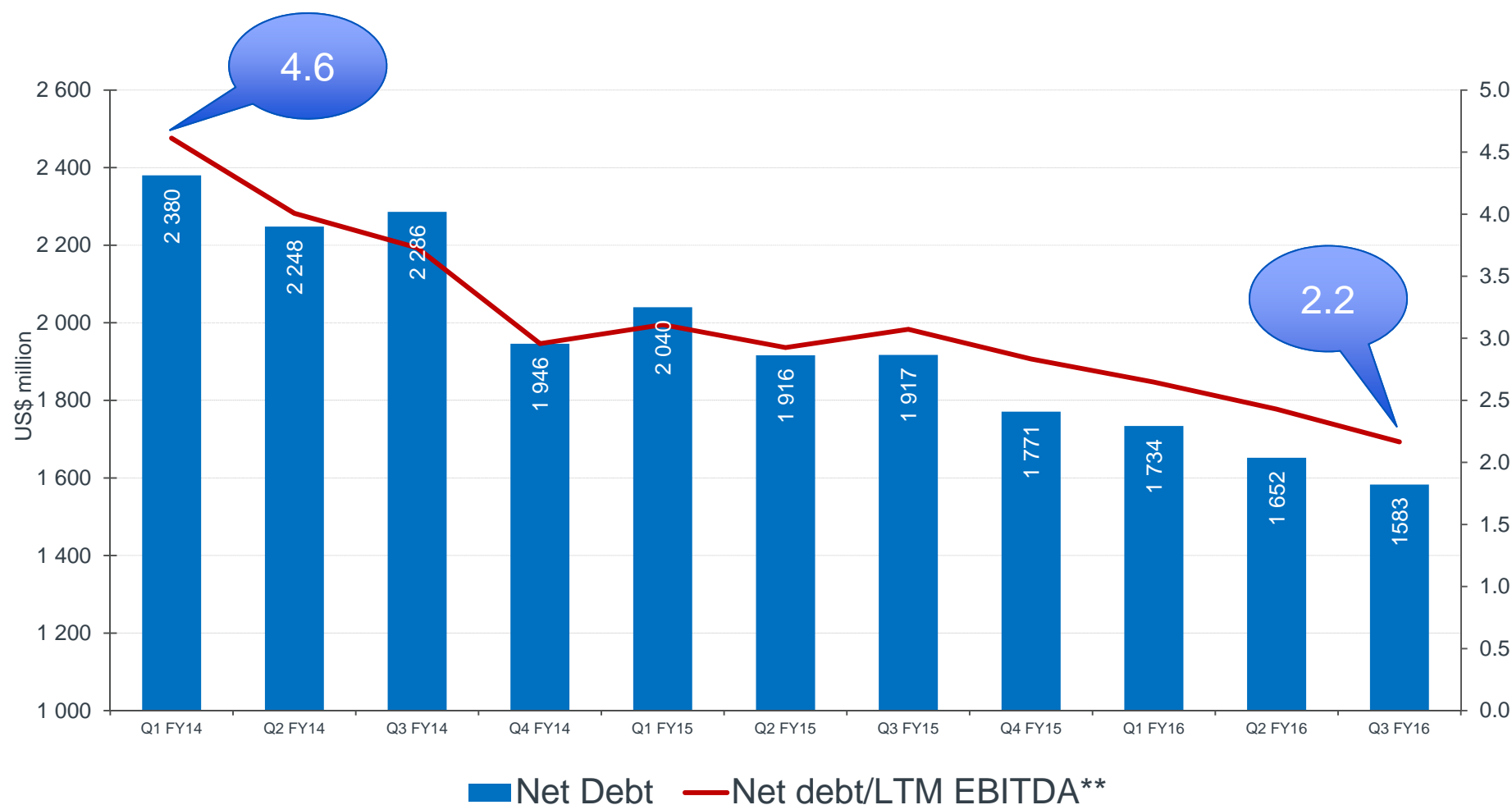
Operating profit excluding special items



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\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q3 FY16 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items. Data above excludes treasury operations and insurance captive.

# Net debt/EBITDA development



\* EBITDA is excluding special items

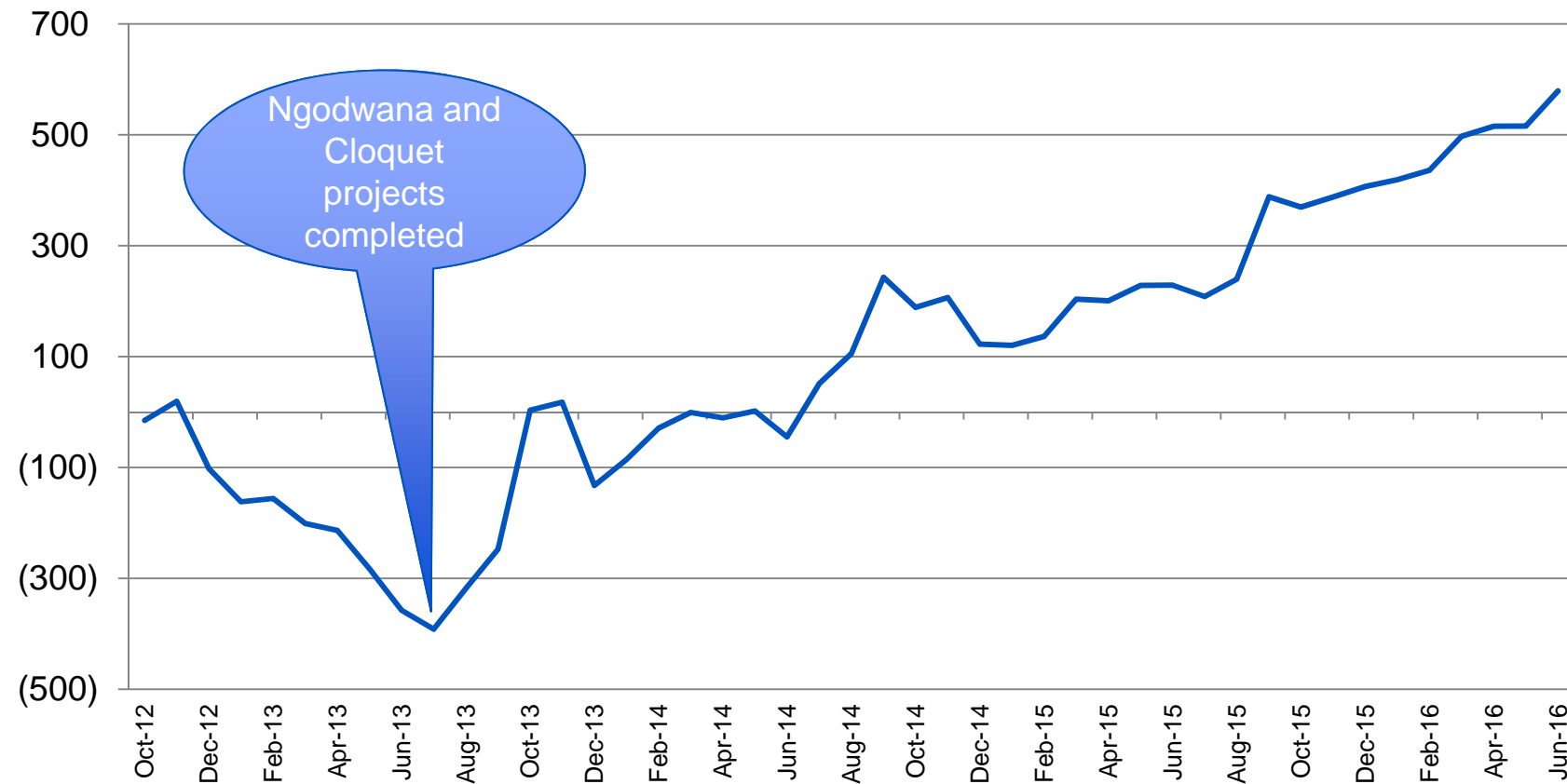
\*\* The covenant Net debt/LTM EBITDA calculation has adjustments and therefore differs from that shown above



# Cumulative Cash Flow



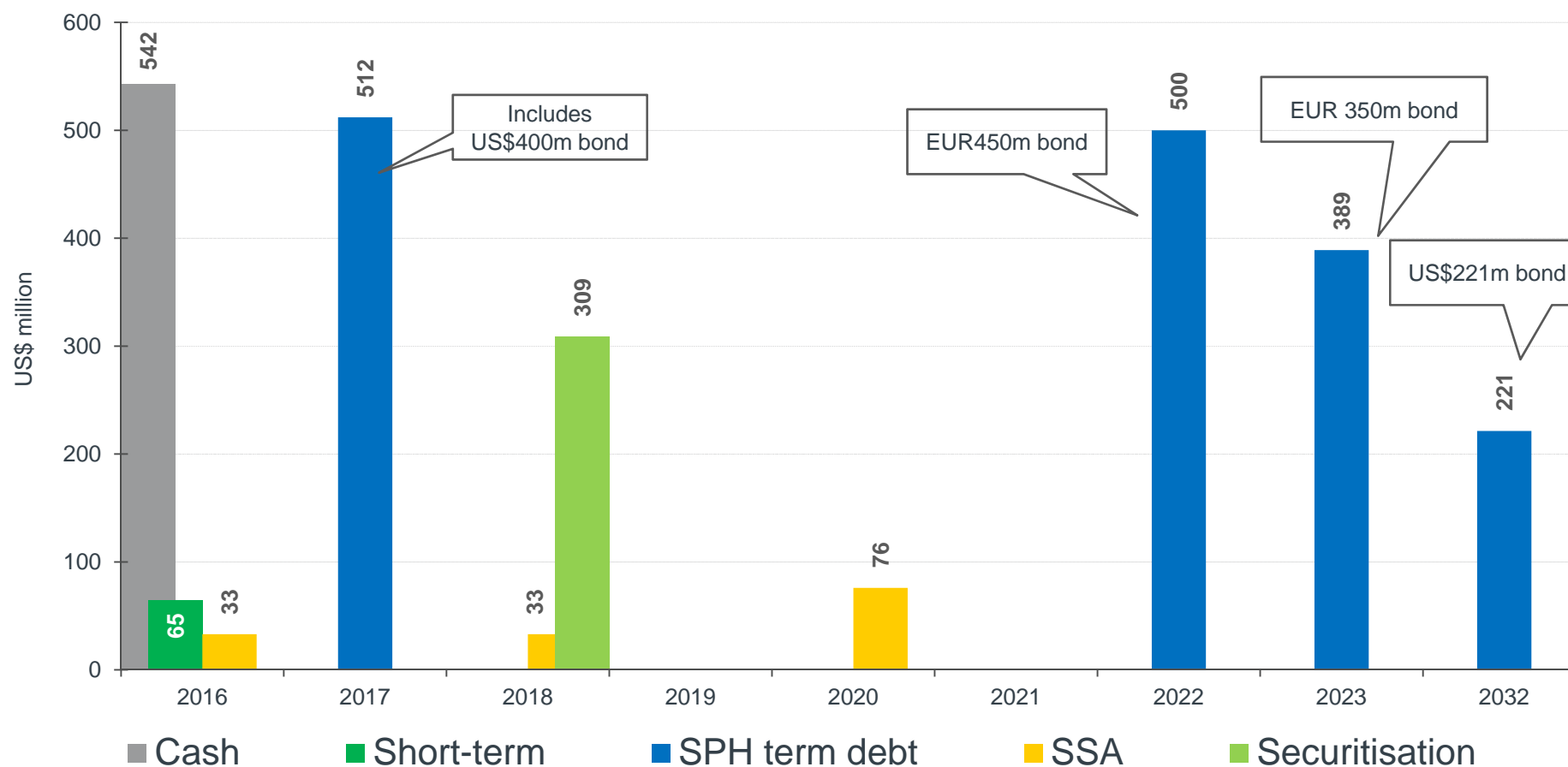
US\$m



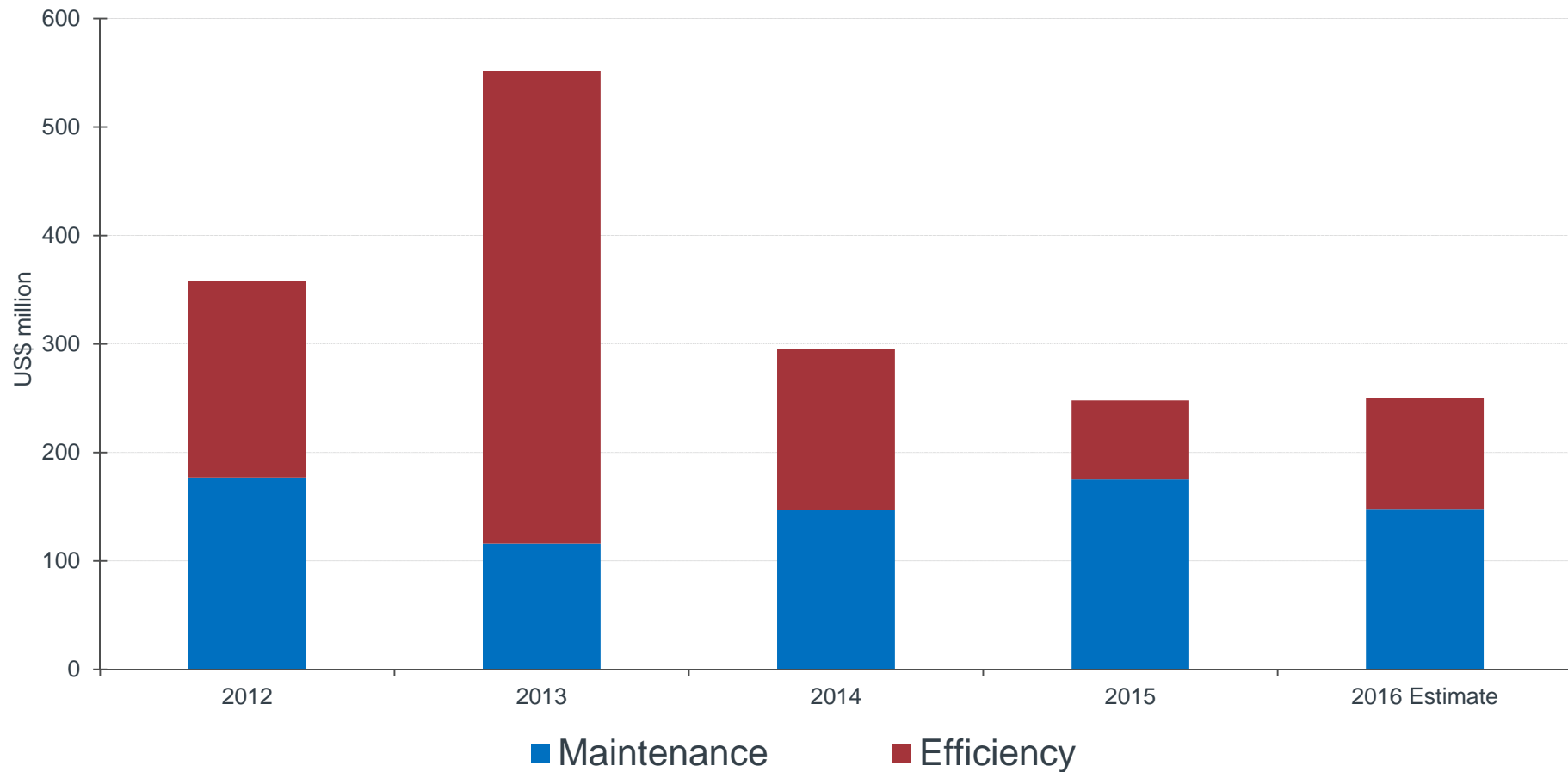
# Maturity profile



Fiscal years



# Capex development



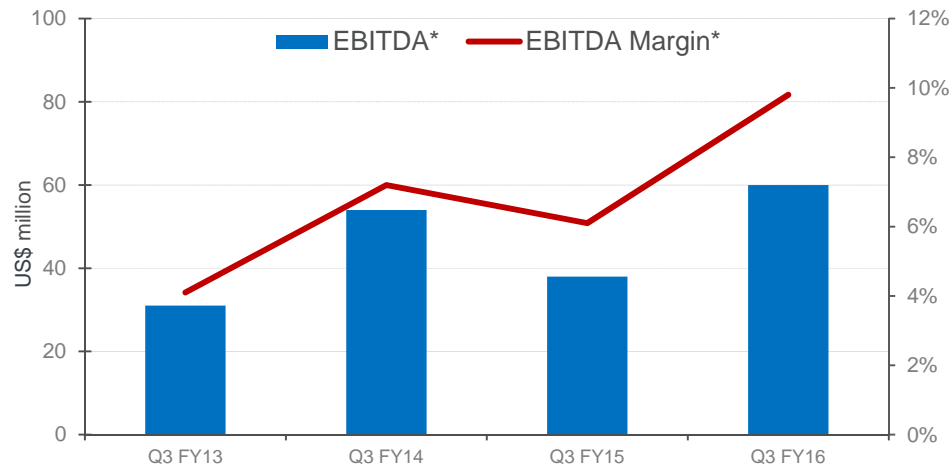
# Divisional overviews



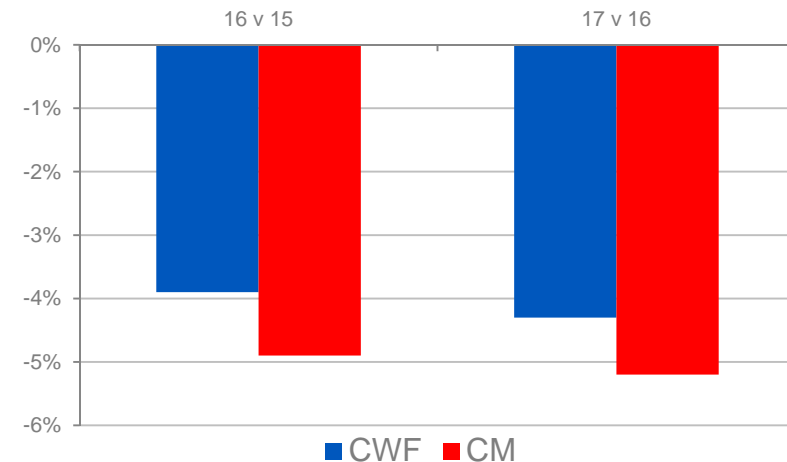
# Global paper market trends

- Supply and demand
  - Uncertain macro backdrop leads to decline in consumer confidence and advertising spend
  - Operating rates declining
  - Industry closures/conversions required in coming periods
- Selling prices and input costs
  - Selling prices declining – driven by operating rates and currency
  - Variable costs still low – pulp, energy and chemicals
- Strategy
  - Reduce or convert capacity in line with demand declines
  - Reduce fixed and variable costs

# Sappi Europe



W. Europe Apparent Consumption Forecast\*\*



- Improved year-on-year performance despite soft demand and flat pricing
- Speciality paper volumes up 15% whereas market average is 1%-5%
- Variable costs were down across all major categories due to favourable pricing and efficiency improvements



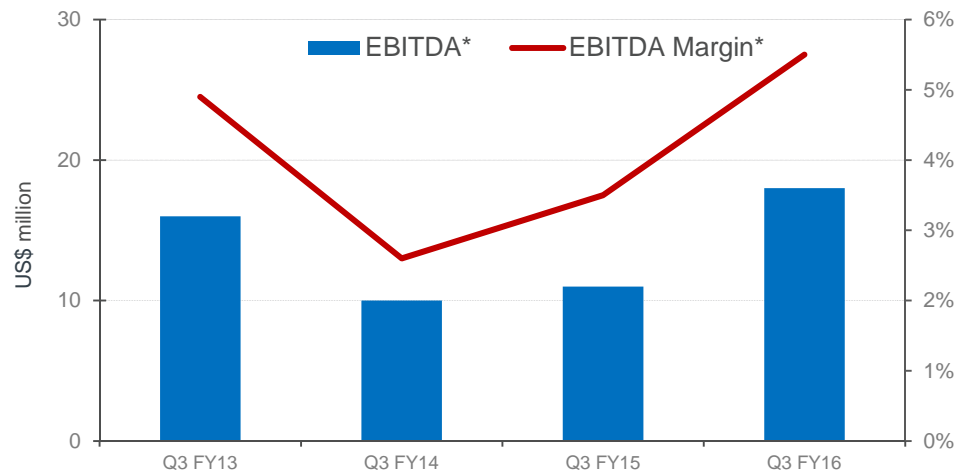
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\* EBITDA and EBITDA margin shown exclude special items. Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q3 FY16 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

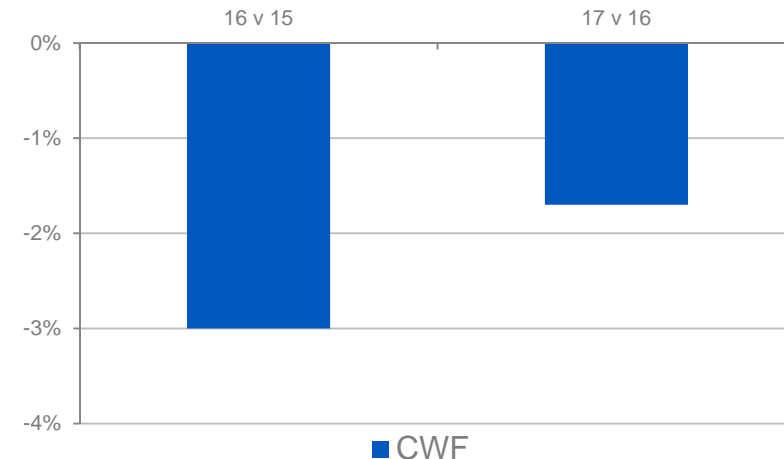
\*\* Source: RISI



# Sappi North America



N. America Apparent Consumption Forecast\*\*



- Market conditions remain challenging – realised paper prices down 5% from last year
- DWP business had increased volumes with higher average prices
- Release business volumes were up with growth coming in the decorative laminate and automotive end-use segments
- Lower variable costs, particularly chemicals, wood and energy helped improve margins



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\*\* Source: RISI

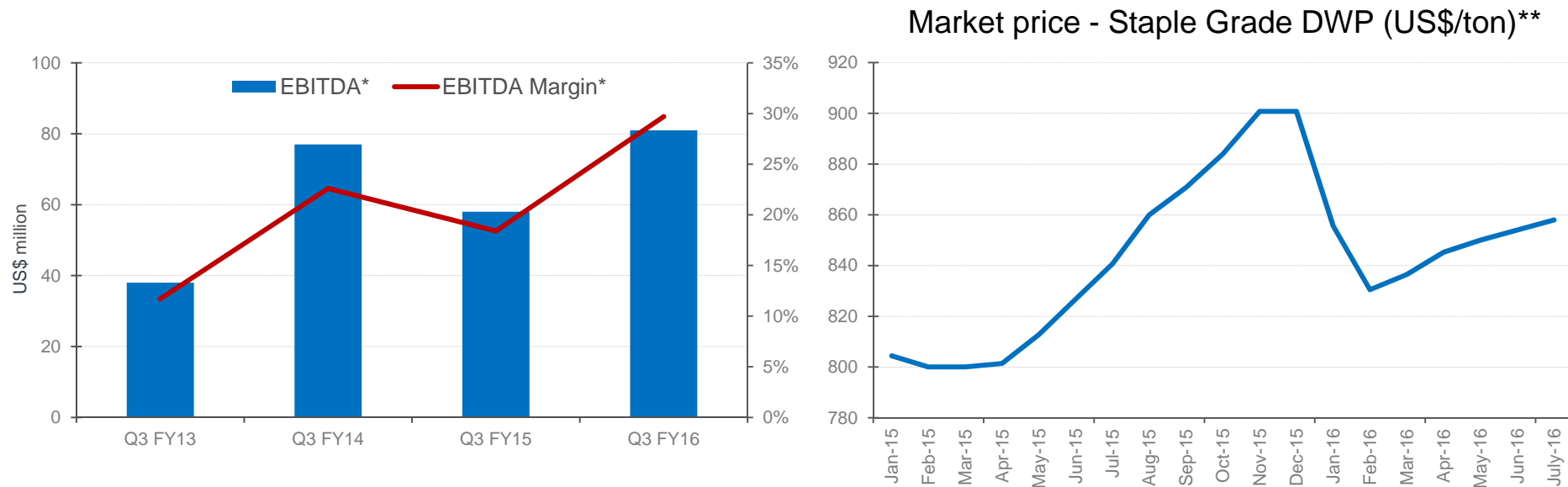
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# Global specialised cellulose market trends

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- Supply and demand
  - Most swing capacity has entered the market as hardwood paper pulp prices fell
  - Continued strong demand
- Selling prices and input costs
  - Spot prices rising alongside cotton and VSF prices
  - Currency fluctuations generally favour producers with non-USD cost base
- Strategy
  - Maintain low-cost position
  - Continue working with customers to support common growth
  - Investigate adjacent end-uses

# Sappi Southern Africa



- Better margins year-on-year due to timing of maintenance shuts and improved selling prices - despite lower overall volumes
- Weaker exchange rate led to increased wood and chemicals prices, which were offset by lower energy and raw material usage improvements

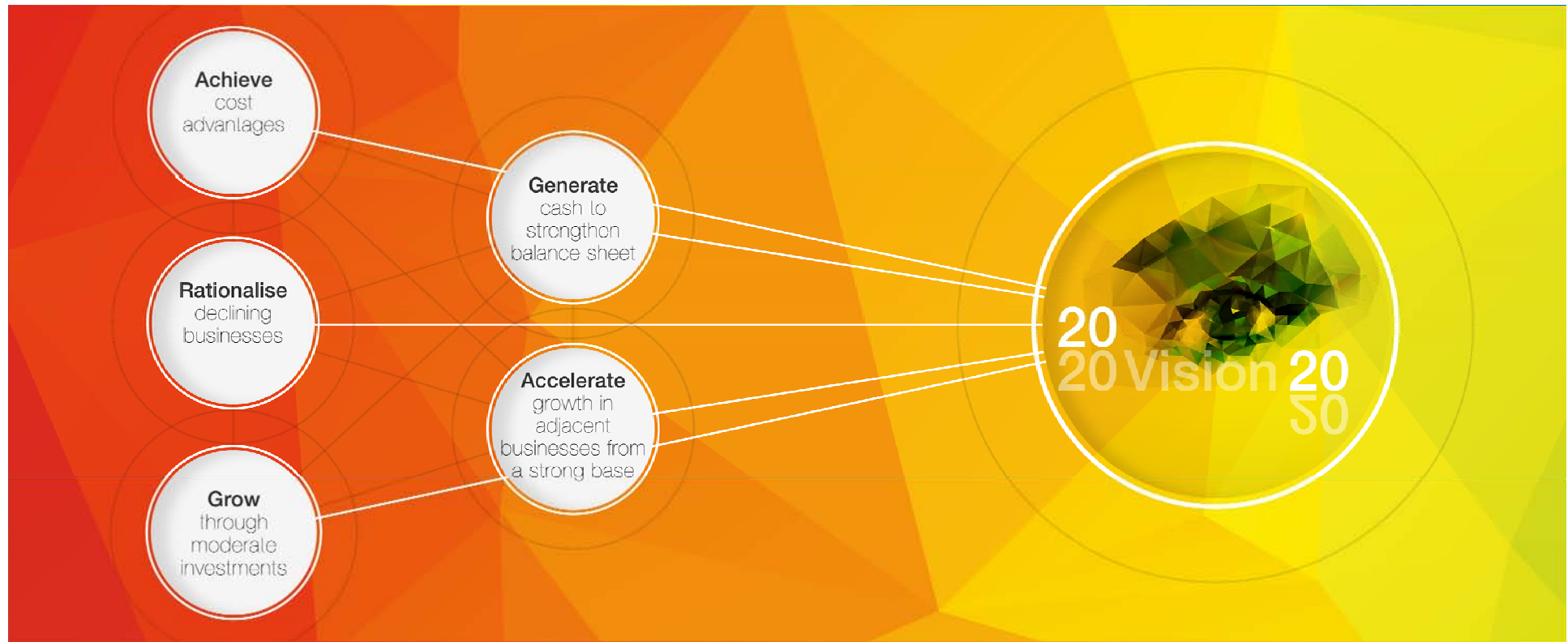


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\*\* Source: CCF

# 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
- Ngodwana boiler upgrade for future debottlenecking – Q2 FY2016
- Group procurement initiatives >\$100m annually by 2020
- Ongoing continuous improvement across all mills



# Focus areas



Rationalise and optimise declining businesses





# Focus areas



Grow through moderate investments



- We will make smaller investments in existing areas with strong potential growth, including pulp, speciality grades and packaging papers
  - Additional packaging at Ngodwana and Tugela
  - Electricity opportunities in South Africa
  - Debottlenecking of Saiccor and Ngodwana DWP
  - Explore opportunities in Specialty Packaging
  - Securing additional HW timber supply in SA



# 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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- Demand for DWP remains positive, but drought conditions in SA may force us to curtail production – swing capacity at Cloquet expected to mitigate impact
- Graphic paper markets have weakened but low input costs are allowing us to maintain margins. Q4 orders have been robust
- Based on current market conditions, and assuming current exchange rates, we expect Q4 FY16 EBITDA to be in-line with that of the prior year.
- Q4 capex approximately \$100m: maintenance, energy and efficiency
- Reduce net debt further toward our target of two-times net debt to EBITDA





# Thank you –



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# Supplementary information

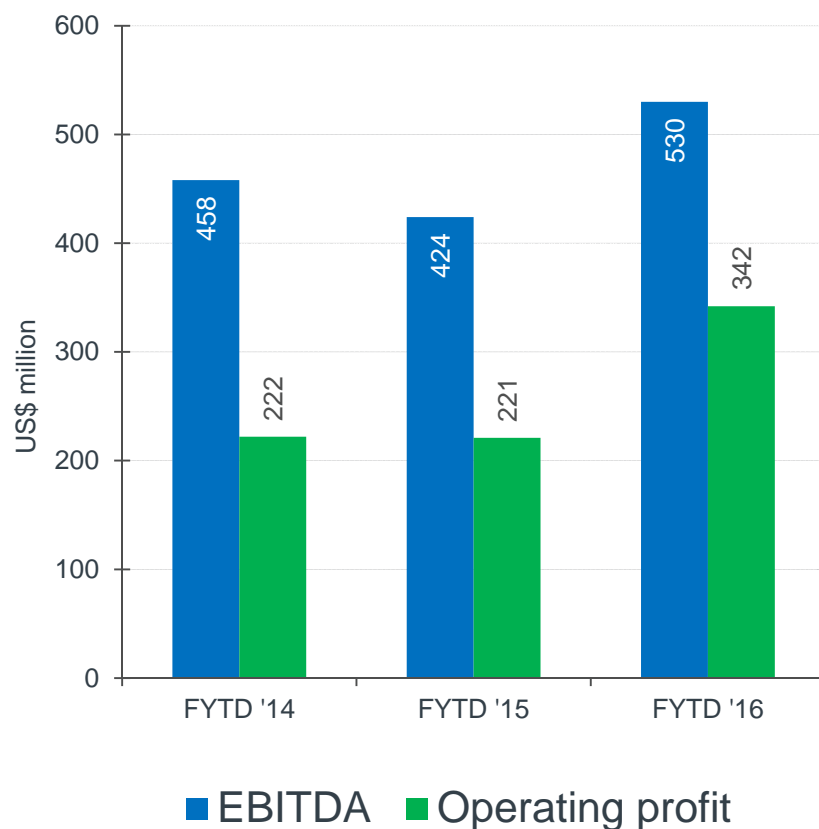


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# EBITDA and operating profit



Excluding special items\*



## Key ratios

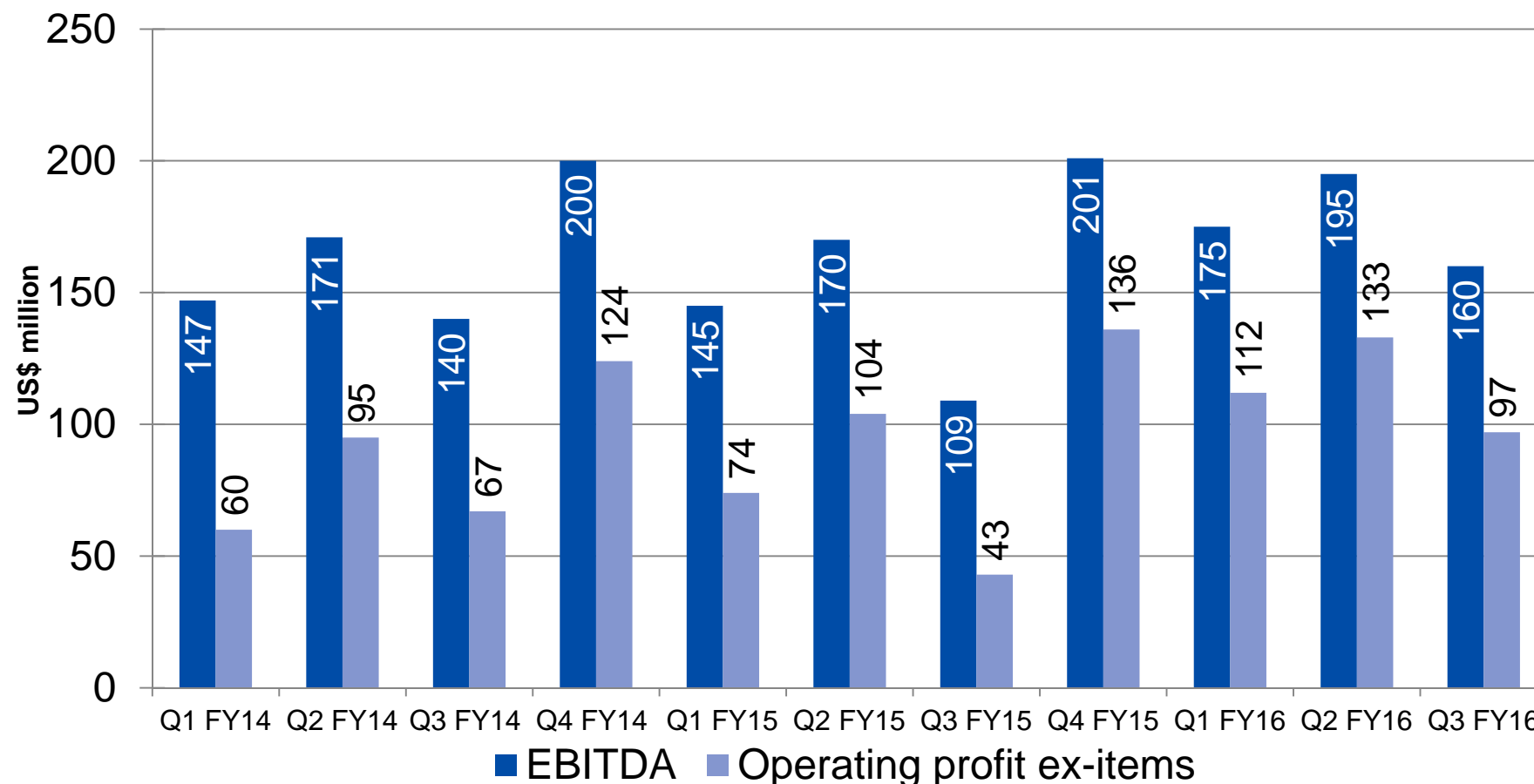
	FYTD '14	FYTD '15	FYTD '16
Net Debt/ LTM EBITDA	3.7	3.1	2.2
Interest Cover	3.4	3.9	7.0
EBITDA %	10.1	10.6	13.9
ROCE %	8.7	9.8	16.4



# EBITDA and operating profit



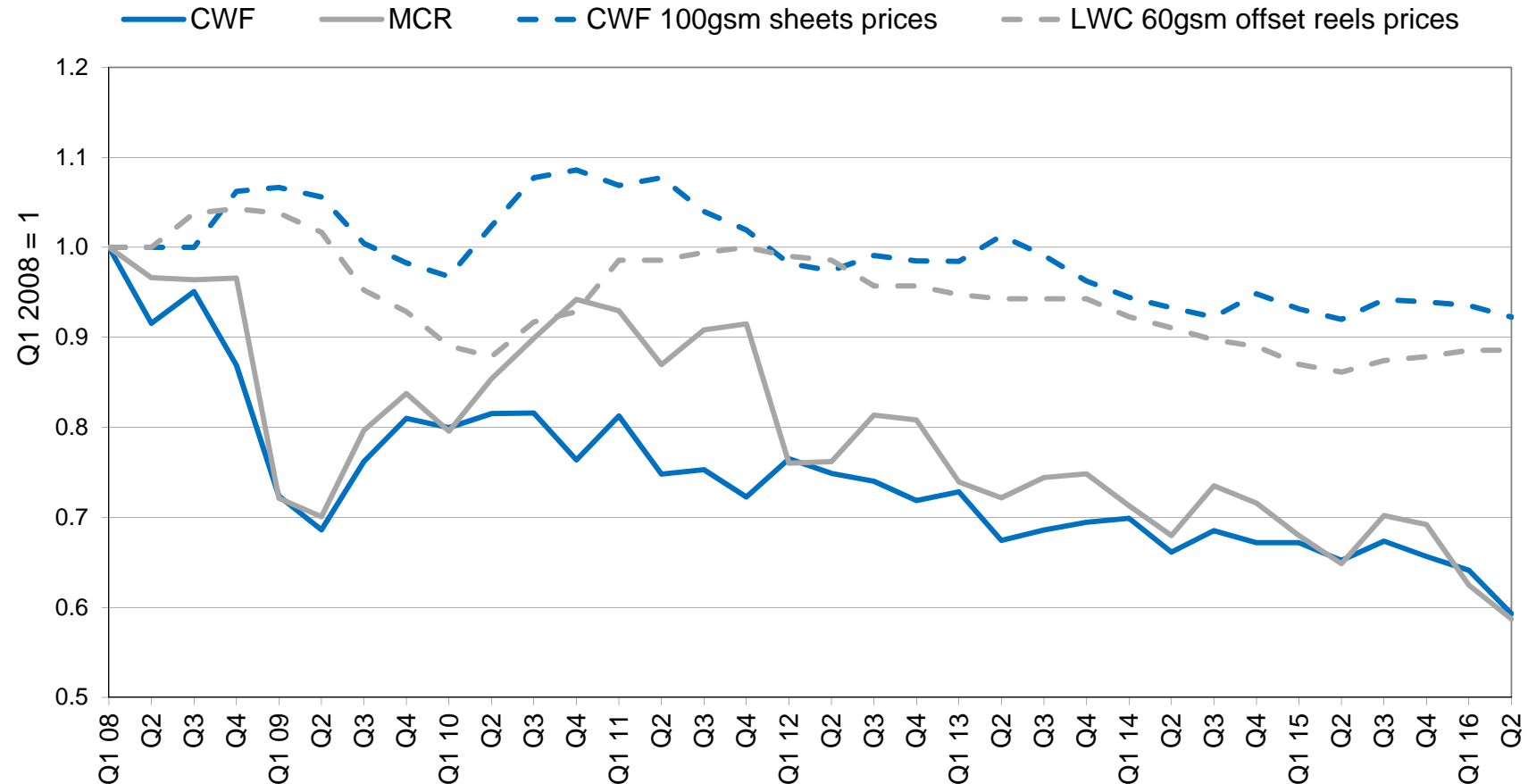
Excluding special items\*



# Coated paper deliveries and prices



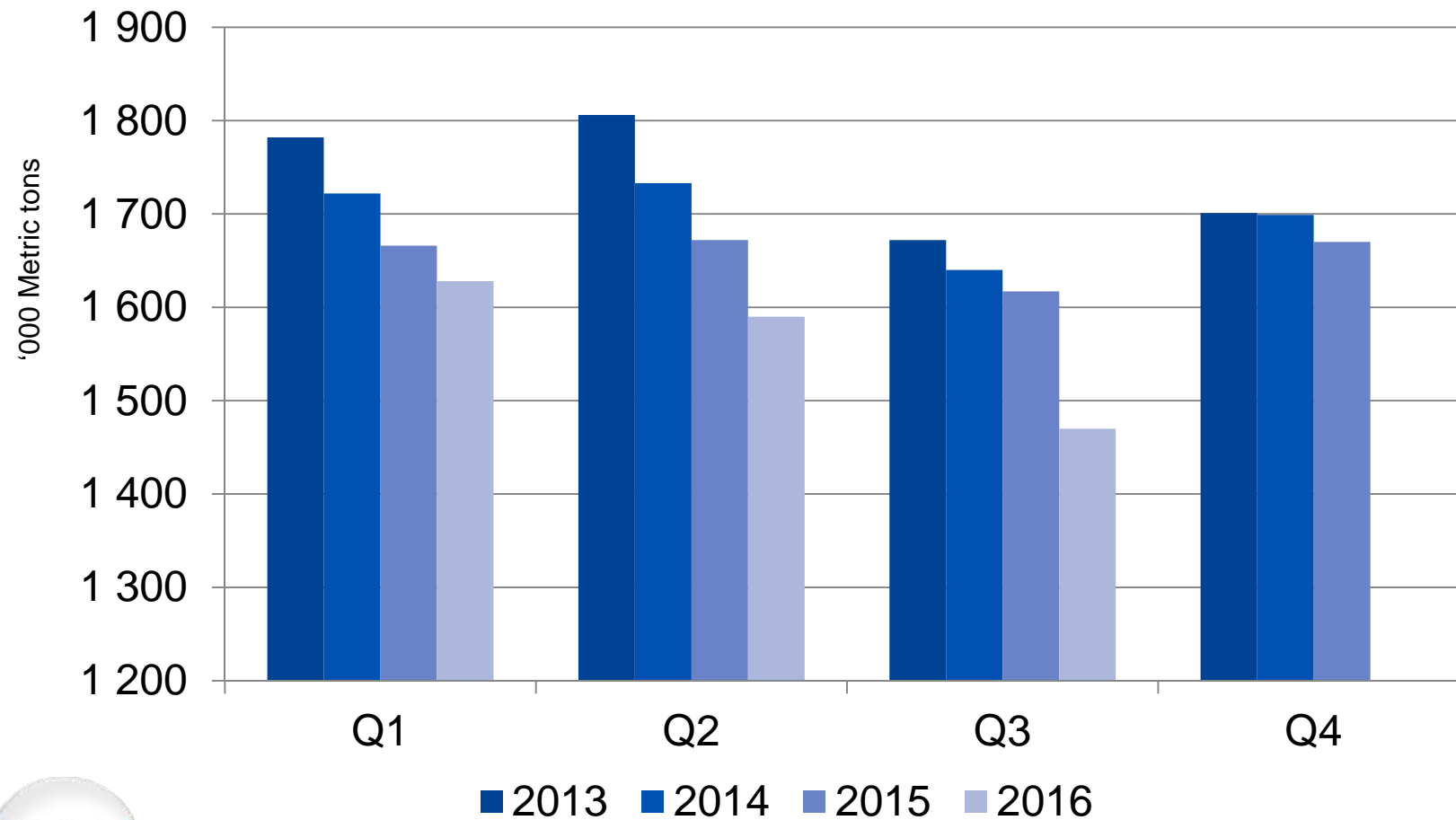
## Western Europe



# W. Europe CWF Shipments



Sappi fiscal quarters



# Sappi Europe



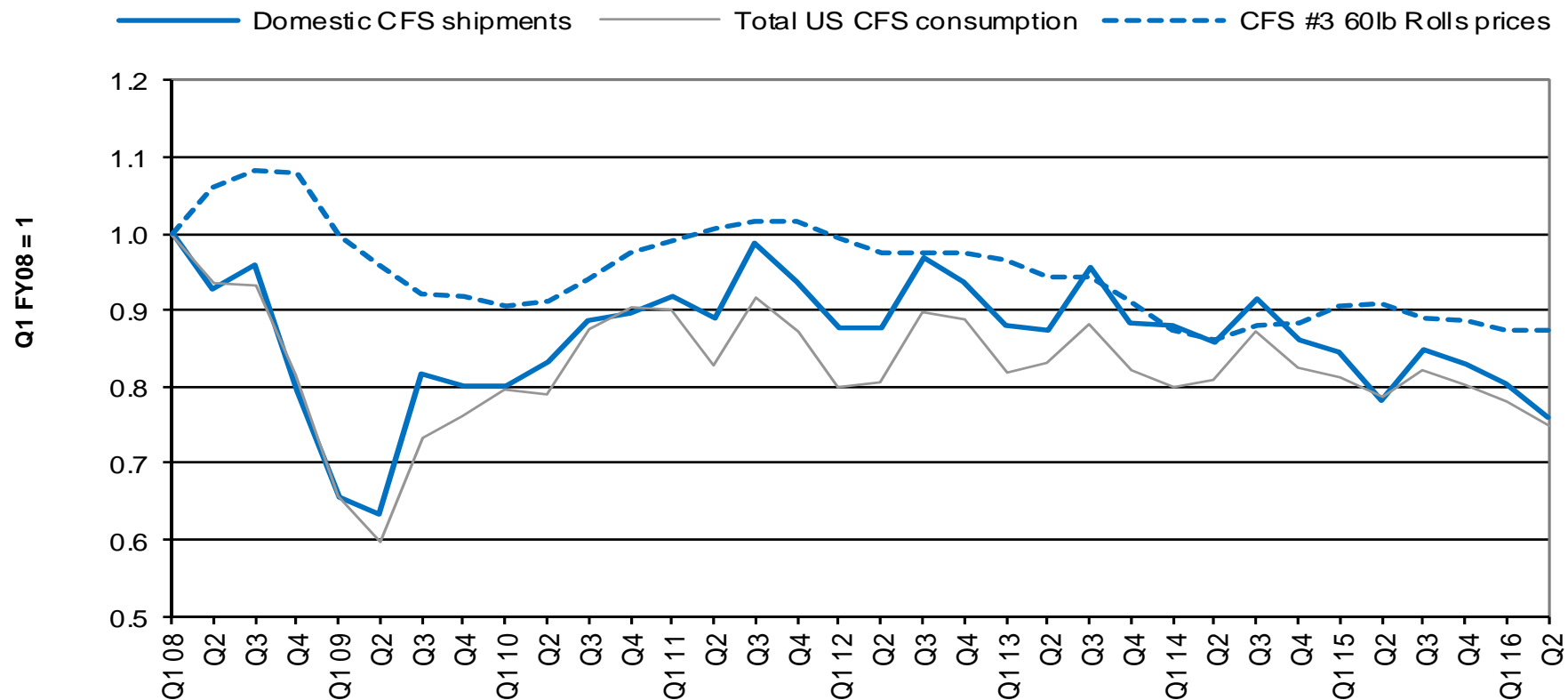
	Q3 FY16	Q3 FY15	YTD 16	YTD 15
Tons sold ('000)	760	792	2,430	2,395
Sales (EURm)	540	567	1,745	1,704
Price/Ton (EUR)	711	716	718	711
Cost/Ton* (EUR)	678	710	682	694
<b>Operating profit excluding special items** (EURm)</b>	<b>25</b>	<b>5</b>	<b>87</b>	<b>41</b>



# Coated paper prices and shipments



United States



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\* US industry shipments and total US consumption  
Source: AF&PA and RISI indexed to calendar Q1 FY08

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# Sappi Packaging and Speciality Papers



Global production sites

**Sappi Alfeld (Germany)**



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

**Sappi Maastricht (Netherlands)**



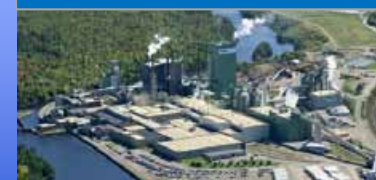
Folding Box Board - atelier™

**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

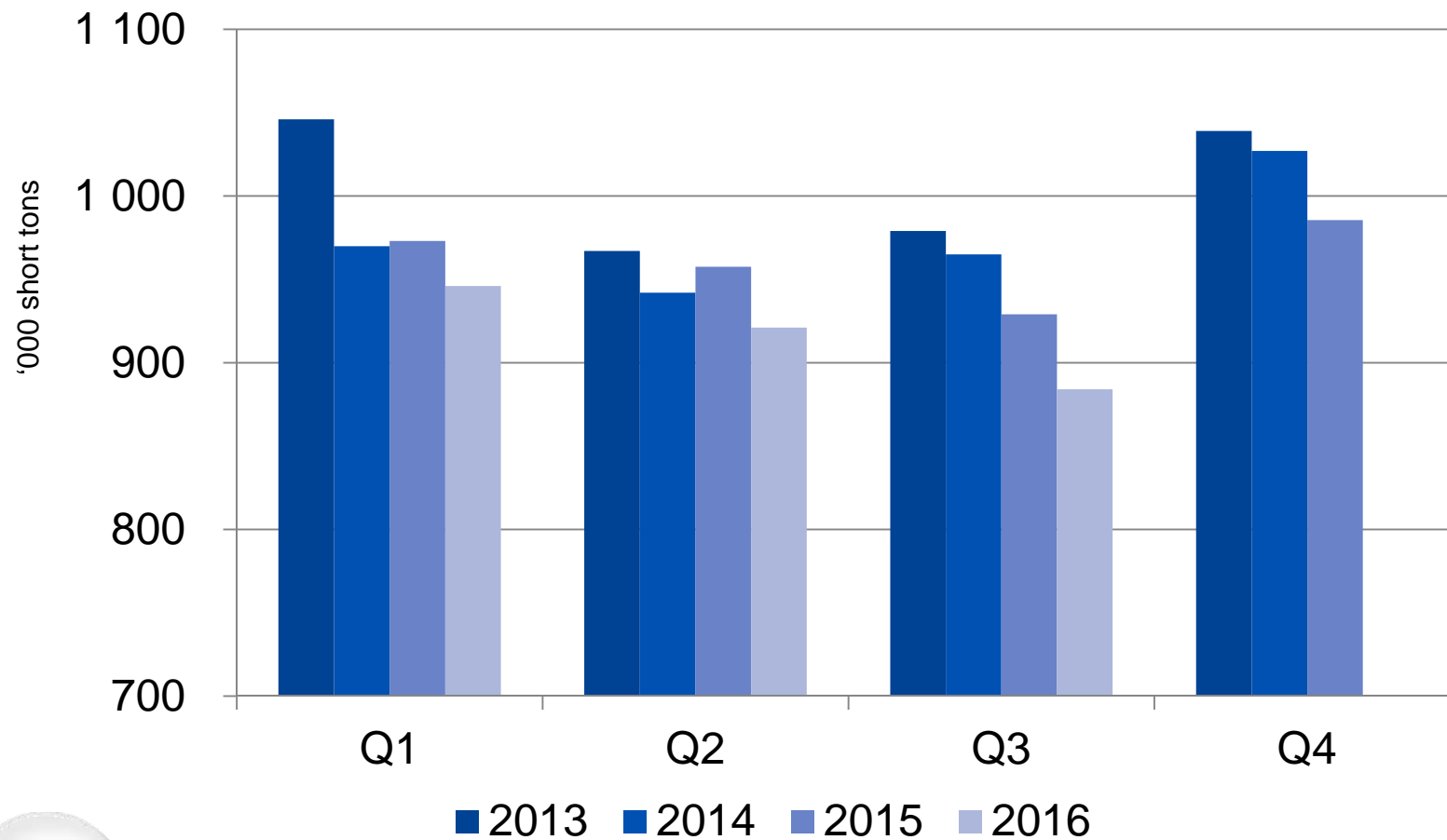
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# NA CWF Apparent Consumption



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\*Source: AF&PA

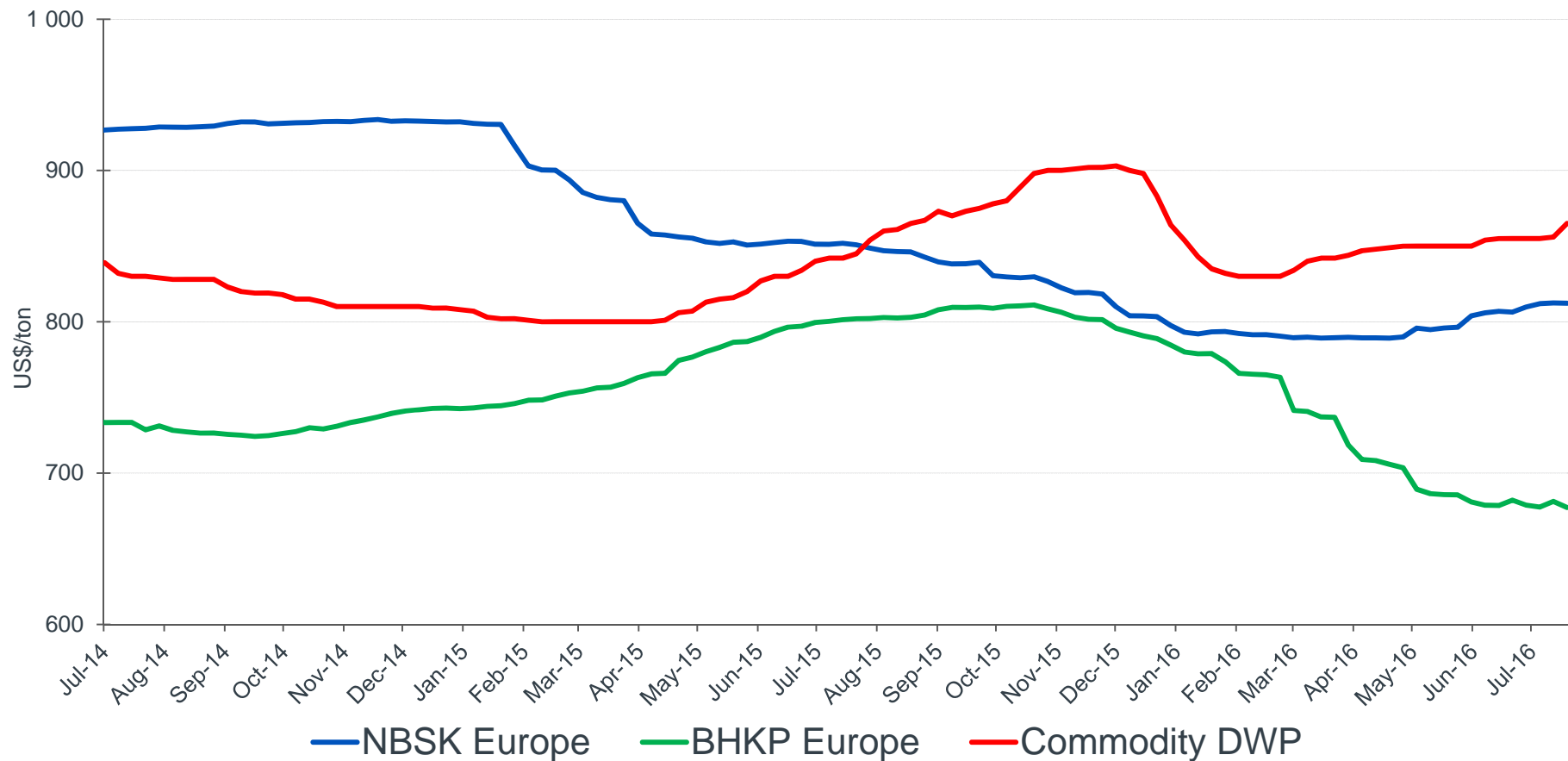
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# Sappi North America



	Q3 FY16	Q3 FY15	YTD 16	YTD 15
Tons sold ('000)	305	294	966	948
Sales (US\$m)	325	313	1,007	1,008
Price/Ton (US\$)	1,066	1,065	1,042	1,063
Cost/Ton* (US\$)	1,072	1,088	1,018	1,068
<b>Operating profit excluding special items** (US\$m)</b>	<b>(2)</b>	<b>(7)</b>	<b>24</b>	<b>(4)</b>

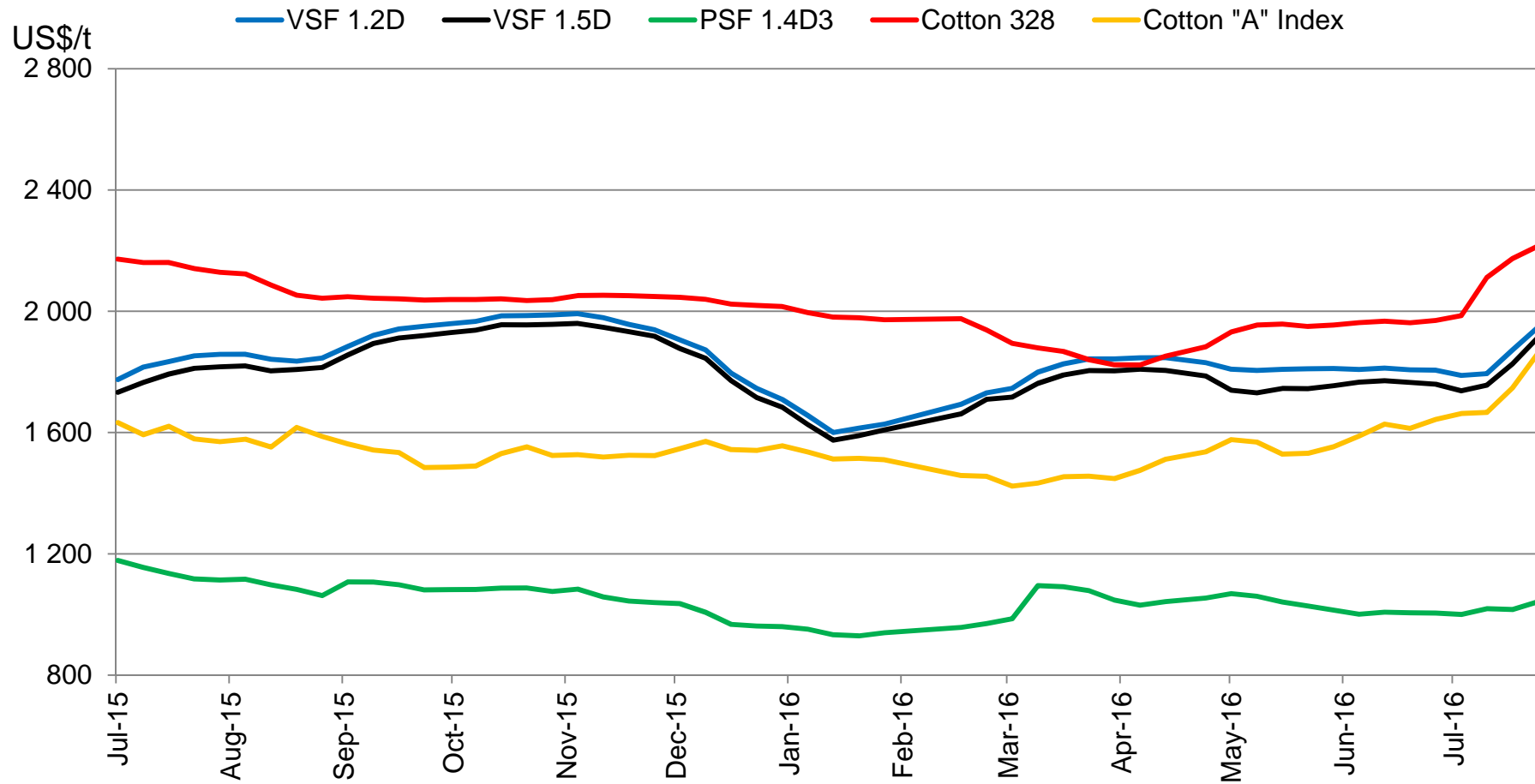
# Pulp prices\*



• Source: FOEX, CCF group



# Textile Fibre Prices



# Sappi South Africa



## Excluding Sappi Forests

	Q3 FY16	Q3 FY15	YTD 16	YTD 15
Tons sold ('000)	407	436	1,197	1,286
Sales (ZARm)	4,097	3,798	12,267	11,095
Price/Ton (ZAR)	10,066	8,711	10,248	8,627
Cost/Ton* (ZAR)	7,486	7,477	7,530	7,059
<b>Operating profit excluding special items** (ZARm)</b>	<b>1,050</b>	<b>538</b>	<b>3,254</b>	<b>2,016</b>

# Cash flow



US\$m	Q3 16	Q3 15	YTD 16	YTD 15
<b>Cash generated from operations</b>	<b>144</b>	<b>90</b>	<b>502</b>	<b>363</b>
Movement in working capital	56	16	(66)	(97)
Net finance costs paid	(29)	(21)	(87)	(111)
Taxation paid	(32)	(12)	(54)	(16)
<b>Cash generated from operating activities</b>	<b>139</b>	<b>73</b>	<b>295</b>	<b>139</b>
<b>Cash utilised in investing activities</b>	<b>(57)</b>	<b>(48)</b>	<b>(104)</b>	<b>(153)</b>
Capital expenditure	(59)	(49)	(144)	(163)
Net proceeds on disposal of assets	1	-	39	-
Other movements	1	1	1	10
<b>Net cash generated (utilised)</b>	<b>82</b>	<b>25</b>	<b>191</b>	<b>(14)</b>

# EBITDA and operating profit

Excluding special items reconciliation to reported operating profit

US\$m	Q3 FY16	Q3 FY15	YTD 16	YTD 15
<b>EBITDA excluding special items*</b>	<b>160</b>	<b>109</b>	<b>530</b>	<b>424</b>
Depreciation and amortisation	(63)	(66)	(188)	(203)
<b>Operating profit excluding special items*</b>	<b>97</b>	<b>43</b>	<b>342</b>	<b>221</b>
<b>Special Items* - gains (losses)</b>	<b>(1)</b>	<b>(8)</b>	<b>32</b>	<b>55</b>
Plantation price fair value adjustment	12	-	40	19
Net restructuring provisions	-	(1)	(4)	(4)
Profit on disposal of asset held for sale and other assets	-	-	16	-
Employee benefit liability settlement	-	(1)	-	56
BEE charge	-	-	(1)	(1)
Fire, flood, storm and other events	(13)	(6)	(19)	(15)
<b>Segment operating profit</b>	<b>96</b>	<b>35</b>	<b>374</b>	<b>276</b>

# Thank you



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