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Chief Executive Officer, Sappi Limited  
30 July 2020

sappi

# Q3 FY20 financial results



# Forward-looking statements and Regulation G disclosure

## 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—Q3 FY20

Excluding special items\*

EBITDA\* US\$26m  
Down 78% YOY

Net debt/EBITDA  
4.0X\*\*

EPS\* (10) US cents

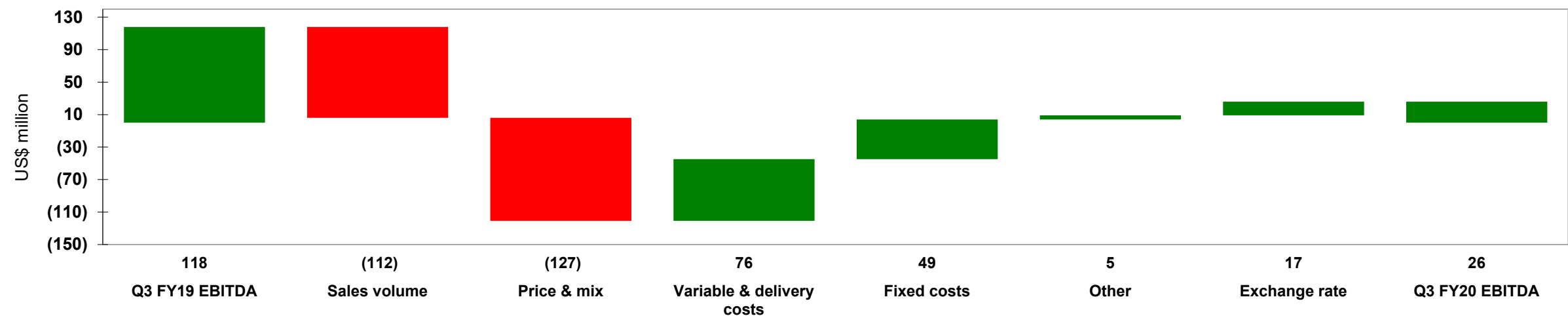
- Severe impact from Covid-19 on profitability
- Significant declines in demand and lower sales prices for graphic paper and dissolving pulp
- Packaging and speciality papers segment continued to grow volumes and profitability
- Focus on preservation of liquidity and cash flow
- Liquidity comprised cash on hand US\$190 million and US\$503 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 Q3 FY20 financial results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

\*\* Adjusted covenant leverage ratio for information purposes. Covenant suspension to March 2021

# EBITDA\* reconciliation

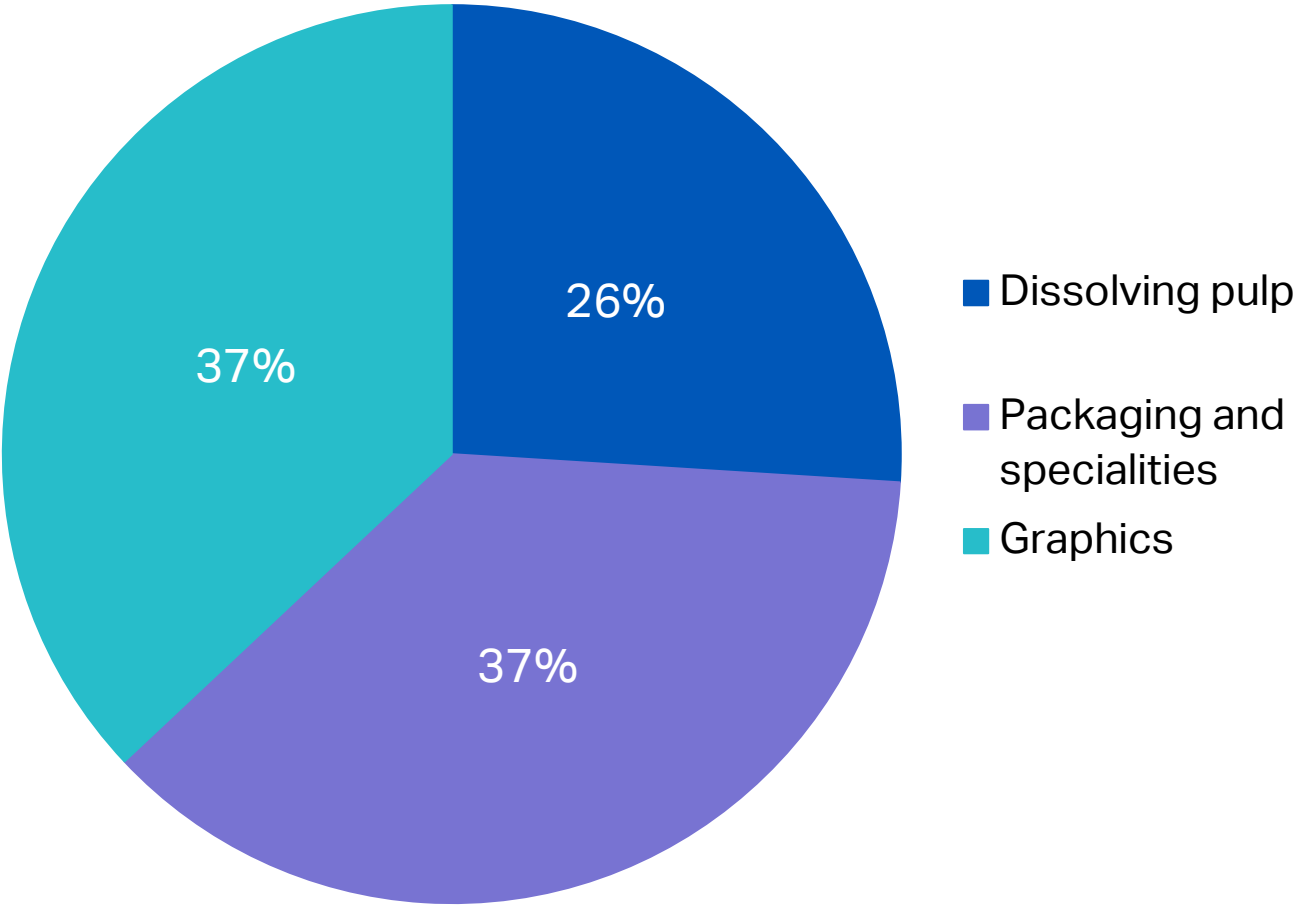
## Q3 FY20 to QFY319



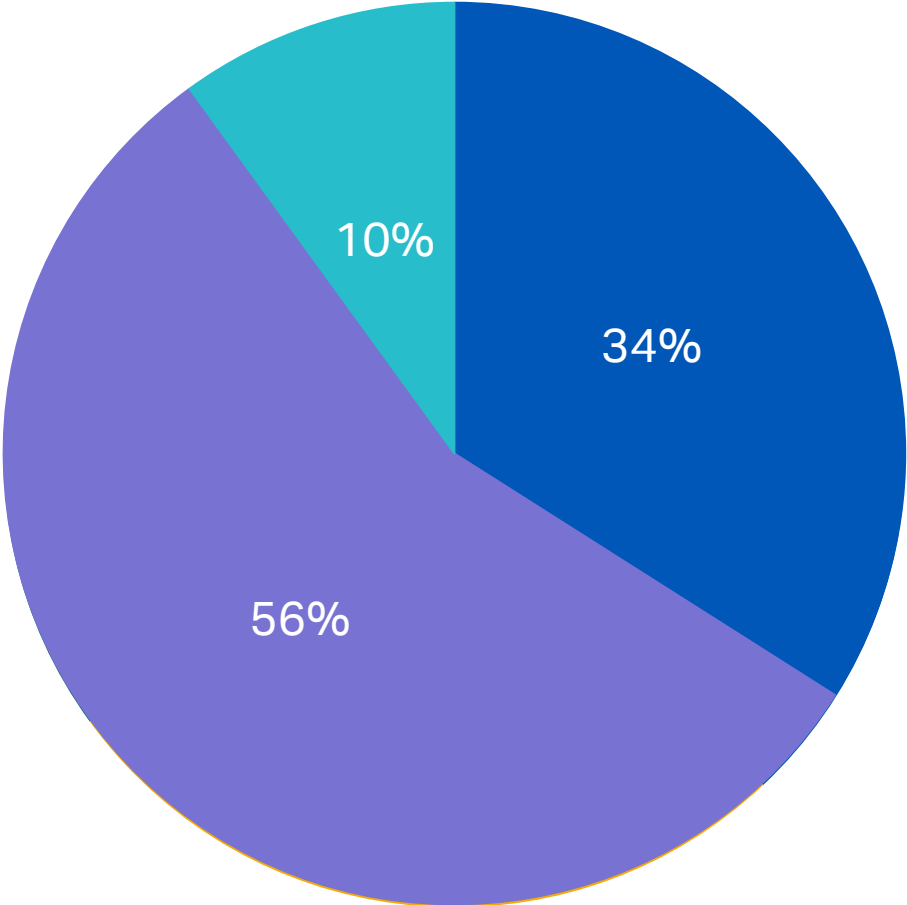
1. All variances were calculated excluding Sappi Forestry.  
2. 'Currency conversion' reflects translation and transactional effect on consolidation.  
3. EBITDA\* = EBITDA excluding special items.

# Product contribution split—LTM

EBITDA excluding special items

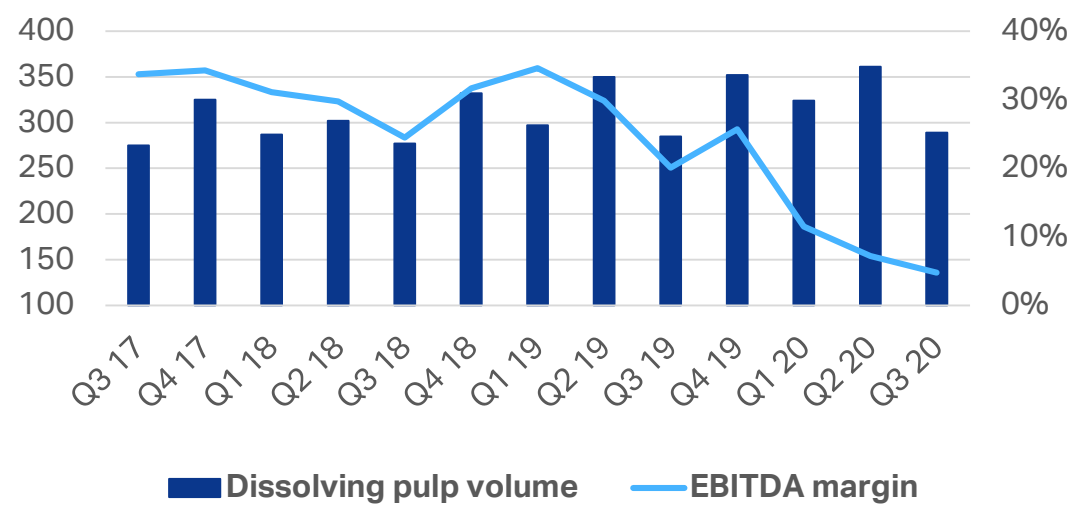
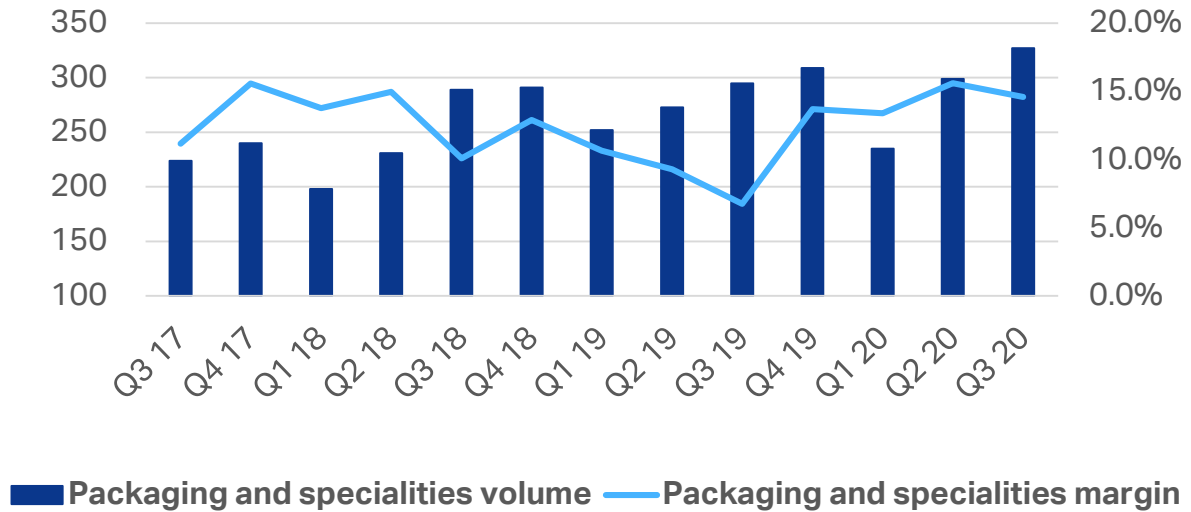
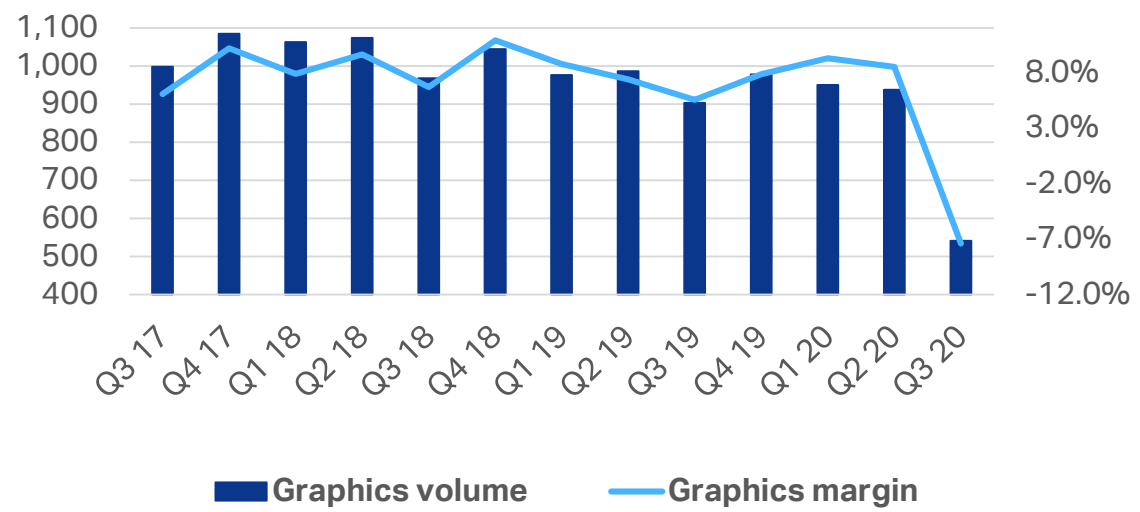


Operating profit excluding special items



\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 25 in our Q3 FY20 financial 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.

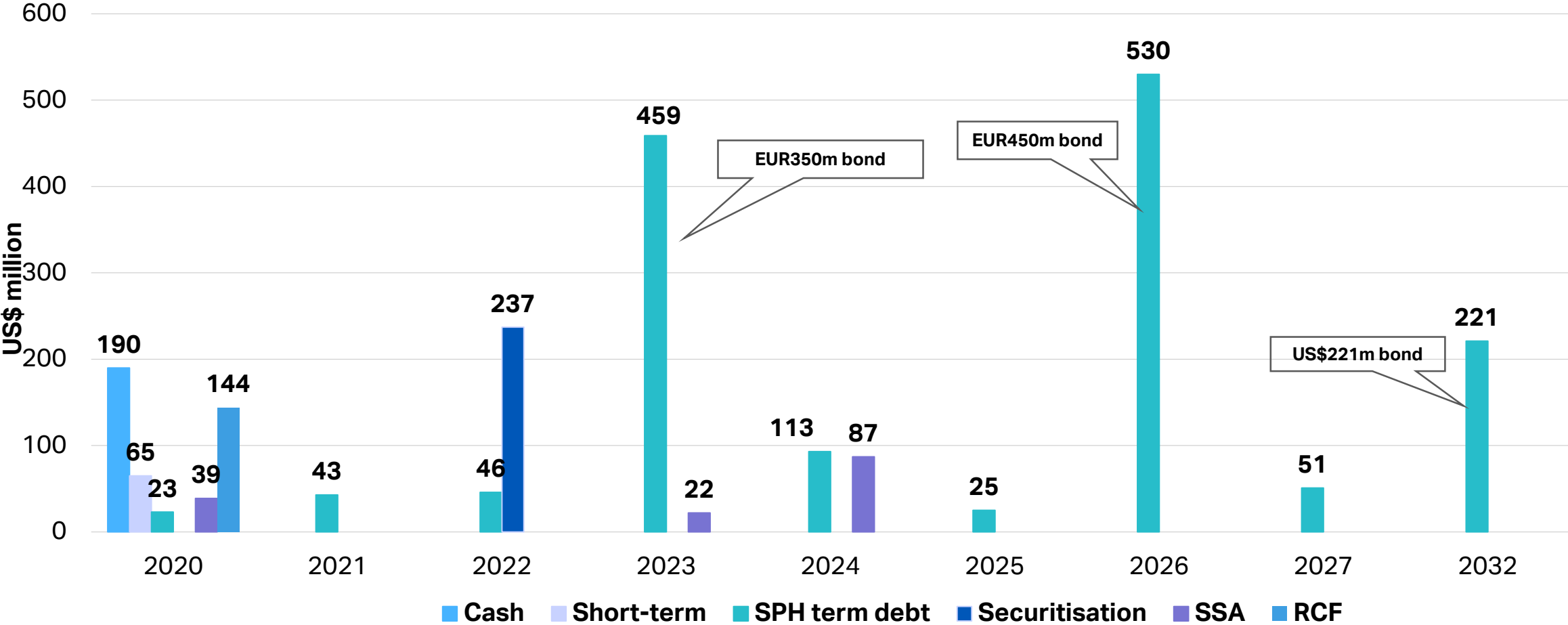
# Segment volume & EBITDA\* margin



EBITDA\* = EBITDA excluding special items.

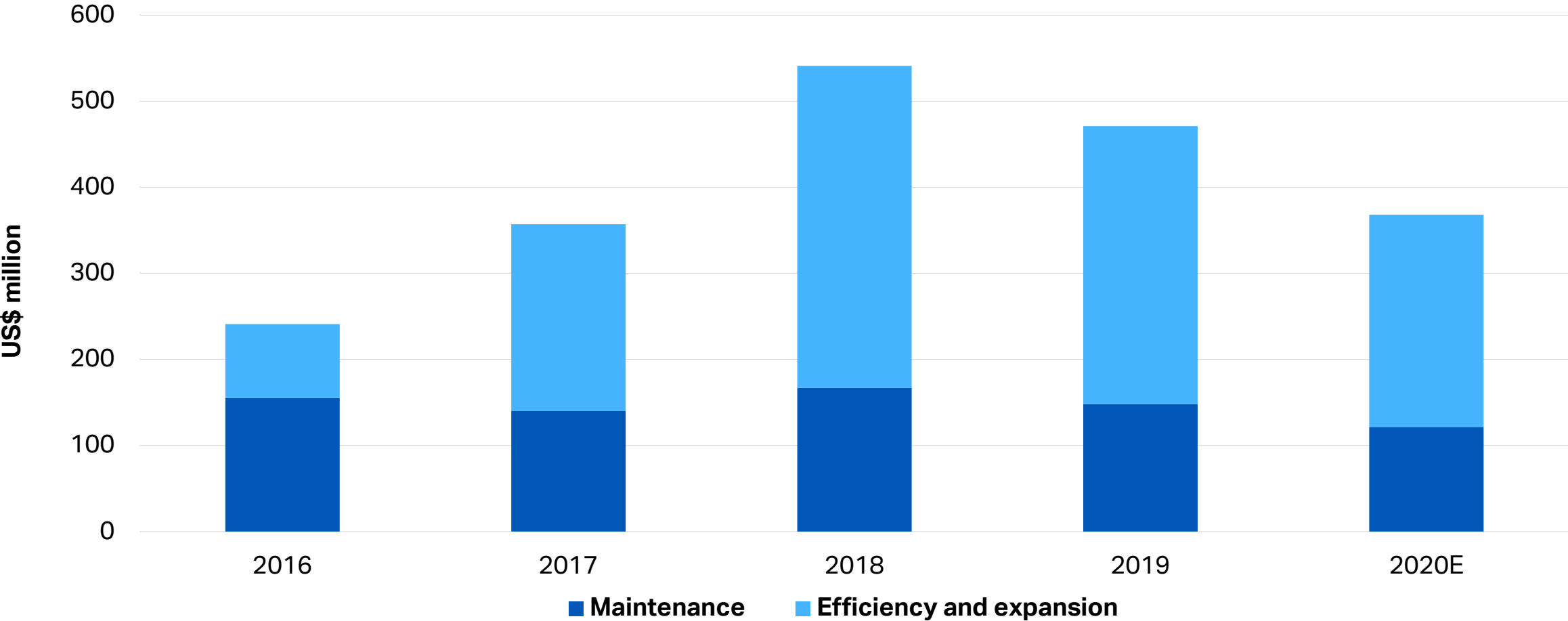
# Maturity profile\*

Fiscal years



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

# Capex





# Segmental overview

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**Sales tons -32%  
year-on-year**

**Variable costs -6%  
year-on-year**

**Packaging EBITDA\*  
up 18%**

- Declines in graphic paper demand across Europe and key export markets
- 369kt commercial downtime required, approximately US\$90m EBITDA impact
- Certain packaging and speciality paper grades unaffected by Covid-19 – profitability increased
- Variable costs lower; driven by pulp, latex and wood costs
- Fixed cost lower due to reduced headcount and temporary unemployment
- Alfeld PM3 operational again as of 20<sup>th</sup> July

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**Sales tons -4%\*  
year-on-year**

**Packaging and  
specialities vol +67%  
year-on-year**

**Variable costs -10%  
year-on-year**

- Strong growth in packaging volumes, with improved product mix towards higher value products
- Graphic paper volumes severely impacted by economic lockdown in the US, commercial downtime of 107kt
- Lower DP demand resulted in additional paper pulp production at Cloquet
- Fixed costs declined 14% due to SG&A savings and furloughing of some employees

\* Volumes down 18% excluding Matane Mill.

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**Sales tons -17%  
year-on-year**

**R200m savings  
from shut  
postponement**

**EBITDA\* -42%  
year-on-year**

- DP sales volumes 21% below the prior quarter necessitating 76kt commercial downtime
- DP US\$ sales prices continued to decline; benefit from weaker US\$/ZAR exchange rate
- Packaging volumes and prices were flat year-on-year
- Newsprint and uncoated woodfree volumes severely impacted by lockdown in SA (– 62%)
- Lower wood, chemicals and energy costs resulted in variable costs declining 12% year-on-year
- Postponement of annual maintenance shuts resulted in 11% reduction in fixed cost

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# Covid-19 update

## Cash management

- **Financing activities**

- Negotiated covenant suspension for 12 months (to March 2021)
- Repaid SA debt maturities with a 12 month bank bridge facility and new SSA07 public bond

- **Reviewed capital expenditure commitments—US\$100m reduction in H2**

- Force majeure on Saiccor Mill expansion project —completion now expected in Q3 FY2021
- Delayed shuts at Ngodwana, Saiccor and Tugela till FY2021

- **Revised procurement savings target for 2020—from US\$64m to US\$100m**

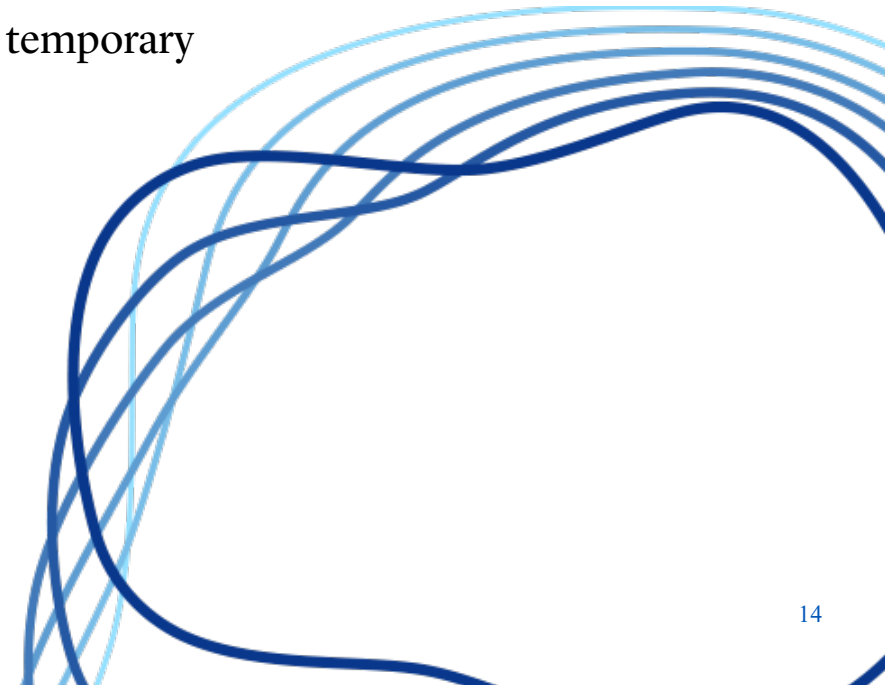
- **Fixed costs savings of \$67m (15%) in the quarter – some relates to delayed shuts**

- **Graphic papers**

- Lower advertising spend and lockdowns resulting in significant retail slowdown causing significant reduction in graphic papers demand globally
- Demand declines of approximately -40% in Europe for CWF and CM, and -35% in US.
- Newsprint and Office paper heavily impacted by lockdowns in SA, demand -60% in Q3, office paper now recovering
- Declining input costs supported margins
- Prices drifted downwards on lower costs—industry managing excess capacity through temporary shutdowns

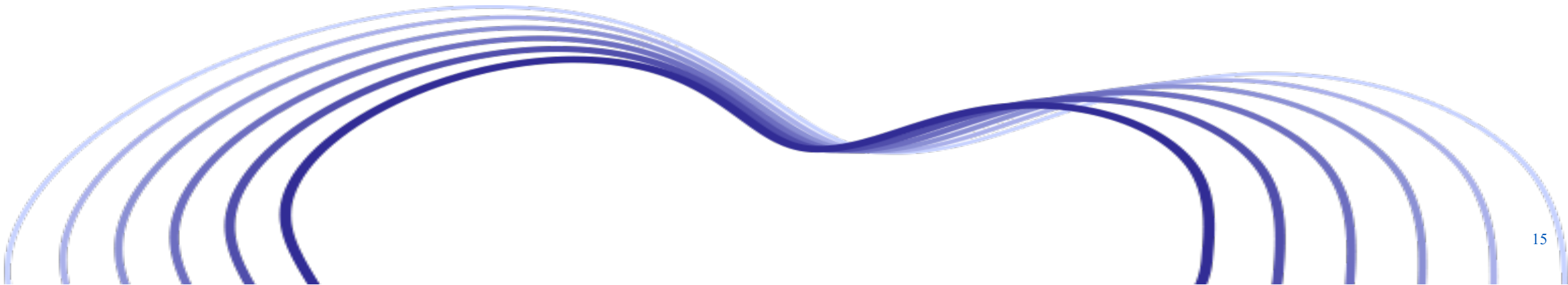
- **Packaging and speciality papers**

- Many categories positively affected to date—food and hygiene related products
- Others negatively impacted by lockdowns—advertising or industry related
- Trials for new products started to resume, continued ramp up of Somerset and Maastricht
- Lower pulp and chemical prices supported margins

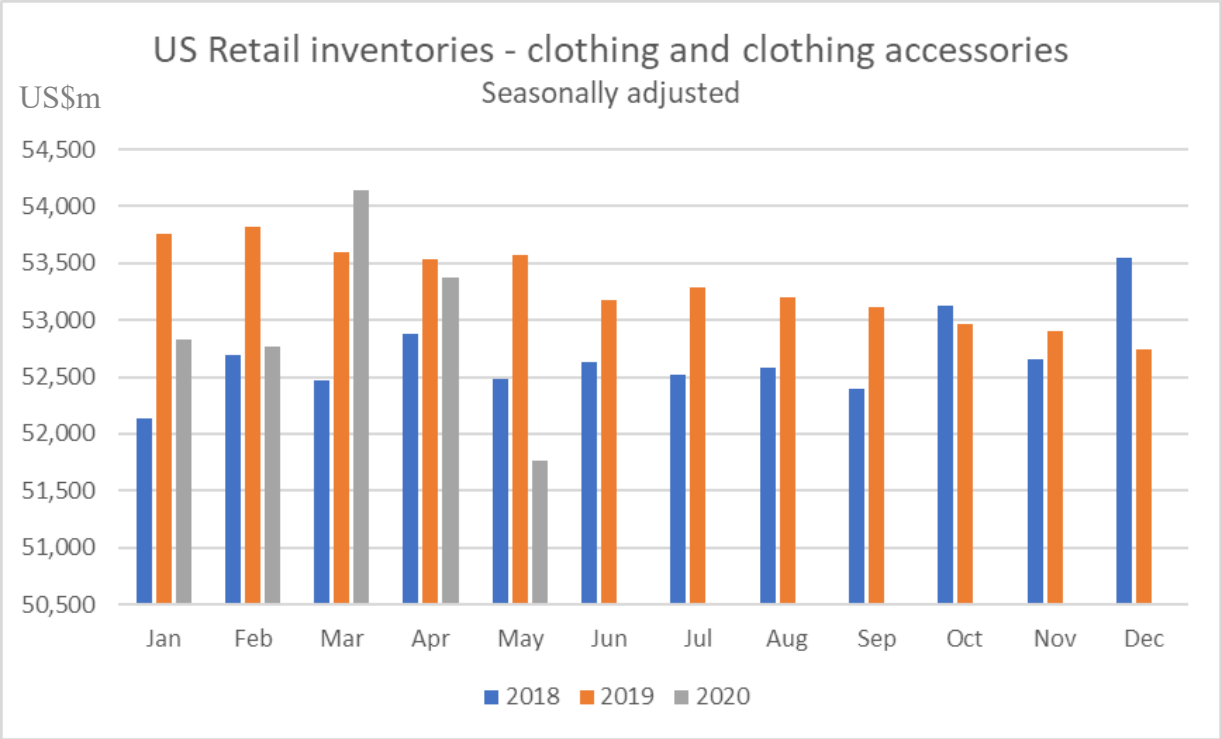
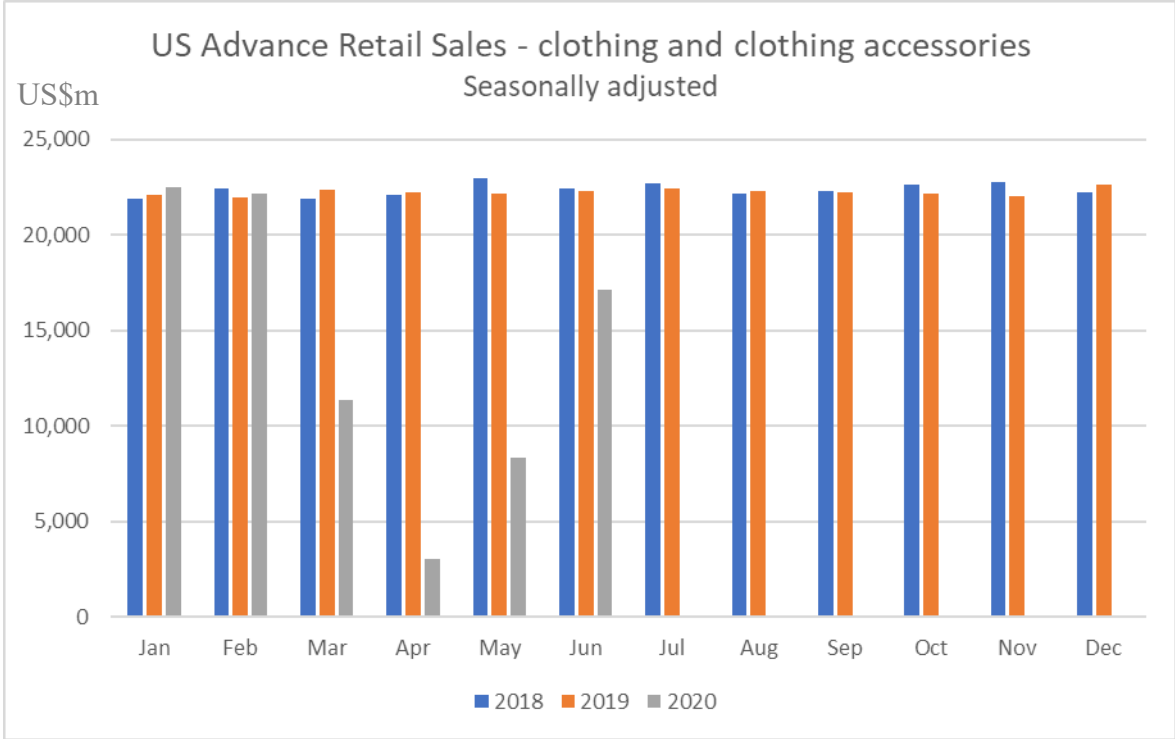


- **Dissolving pulp**

- 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
- Demand down approximately 29% in Q3, pace of recovery picking up
- Customers plants recommenced production in June
- Exchange rate movements lowering costs for many producers; DP price trending lower in line with VSF pricing
- VSF production increasing as lockdowns ease — excess capacity remains an issue with lower demand
- 86,000 tons of BCTMP and kraft paper pulp sales volumes included in the segment – pricing under pressure



# US retail clothing sales start to recover in May, inventories decline



Source: US Federal Reserve



Sappi's 2025 strategy will  
cover two phases

# Phase 1

## Strengthen balance sheet (2020–2021)

### Objective

**Reduce debt and  
maximise cash  
generation**

### Strategy

- Complete approved projects on time and within budget
- Drive further margin improvement opportunities
- Investigate capacity expansions
- Investigate new growth opportunities

# Phase 2

## Invest for profit growth (2022+)

### Objective

**Invest in new opportunities**

### Strategy

- Deliver smaller growth opportunities
- Make decision on expansions and conversions
- Commercialise new products at scale
- Execute sustainability strategy
- Invest in R&D



# Our business strategy

## How we'll get there

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Through collaboration and innovation we will grow profitably, using our strength as a sustainable and diversified global woodfibre group, focused on dissolving pulp, graphic, packaging and speciality papers, and biomaterials.



- **Achieve cost advantages**

- Group efficiency and procurement saving initiatives in FY20: US\$100m—an increase of US\$36m
- Saiccor Mill expansion delay due to Force Majeure, project has commenced; Completion in Q3 FY21—will improve efficiency and lower costs once complete

- **Rationalise declining businesses**

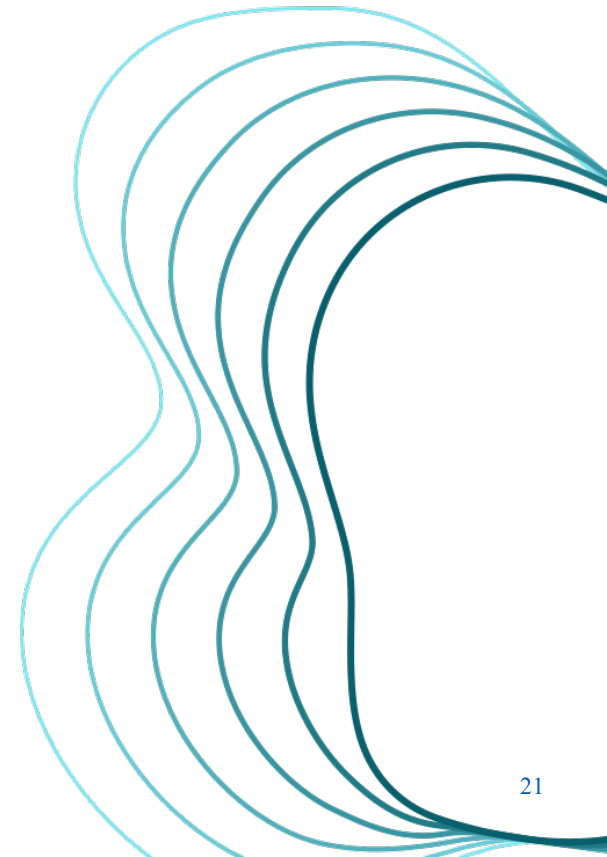
- Rapidly matching production to demand; Stockstadt Mill PM2 and Westbrook PM9 to shut

- **Maintain a healthy balance sheet**

- Covenant suspension through to March 2021
- Strict focus on cash generation and liquidity
- Shifted US\$100m of capex to 2021

- **Accelerate growth in higher-margin growth segments**

- Ramp up of board grades at Somerset and Maastricht Mills—somewhat slower due to delays in trials which are now recommencing
- Continue to evaluate barrier coating and technology opportunities for growth

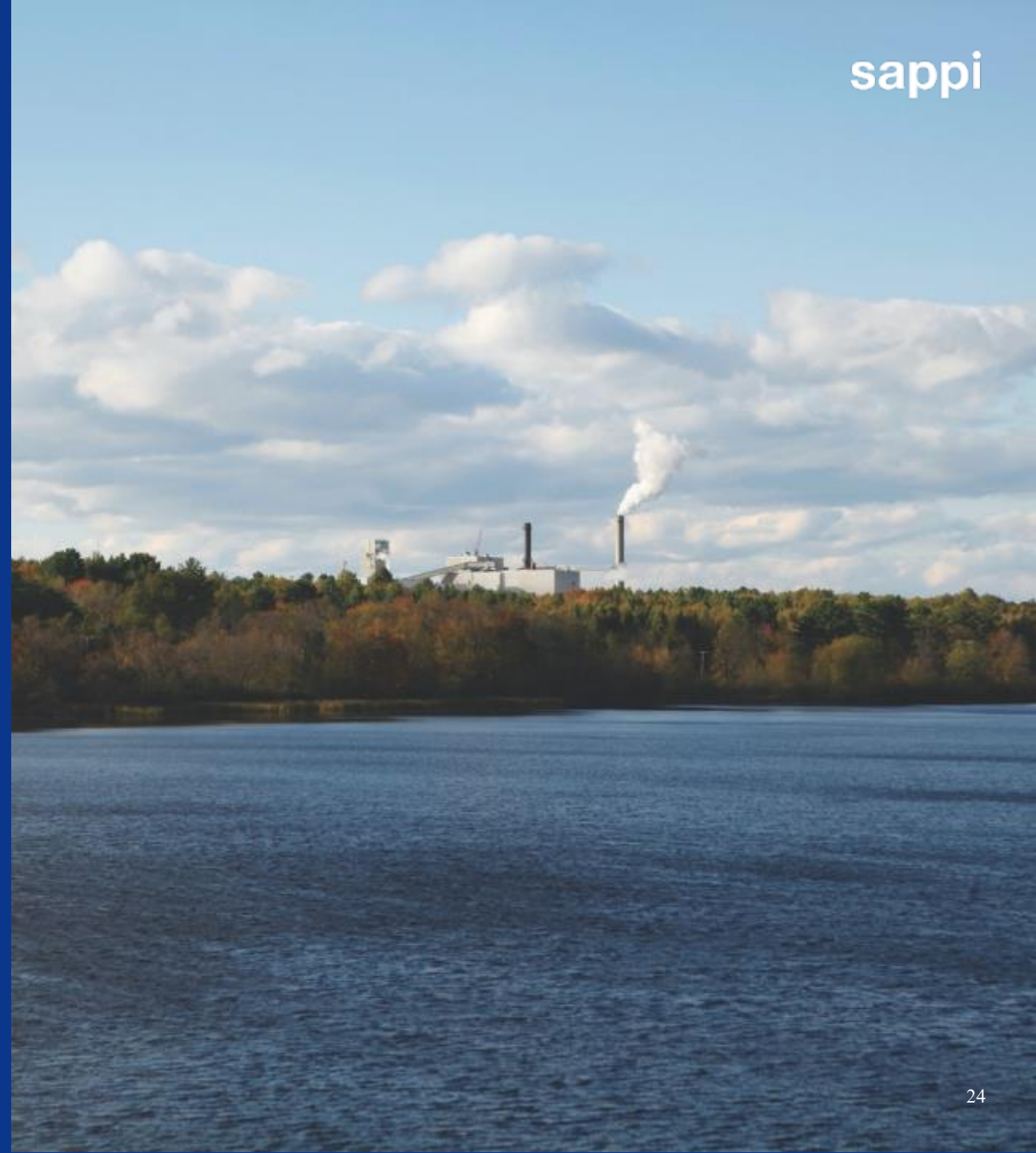


- Estimate dissolving pulp and graphic paper volumes to be 75% and 70% of prior year levels respectively
- Market for DP recovering faster than this; pricing under pressure, resulting in additional paper pulp at Cloquet
- Port and shipping issues in South Africa hampering a further recovery in sales volumes
- Packaging and specialties segment continues to grow, certain grades more resilient during the crisis and release liner and digital imaging expected to accelerate as lockdowns ease and industries recover
- Slow recovery underway in the graphic paper segment as economies open up and retail and advertising activity increase
- Saiccor expansion project fully underway in July; completion estimated in the third quarter of FY2021
- Focus remains on liquidity and cash flow



# Thank you

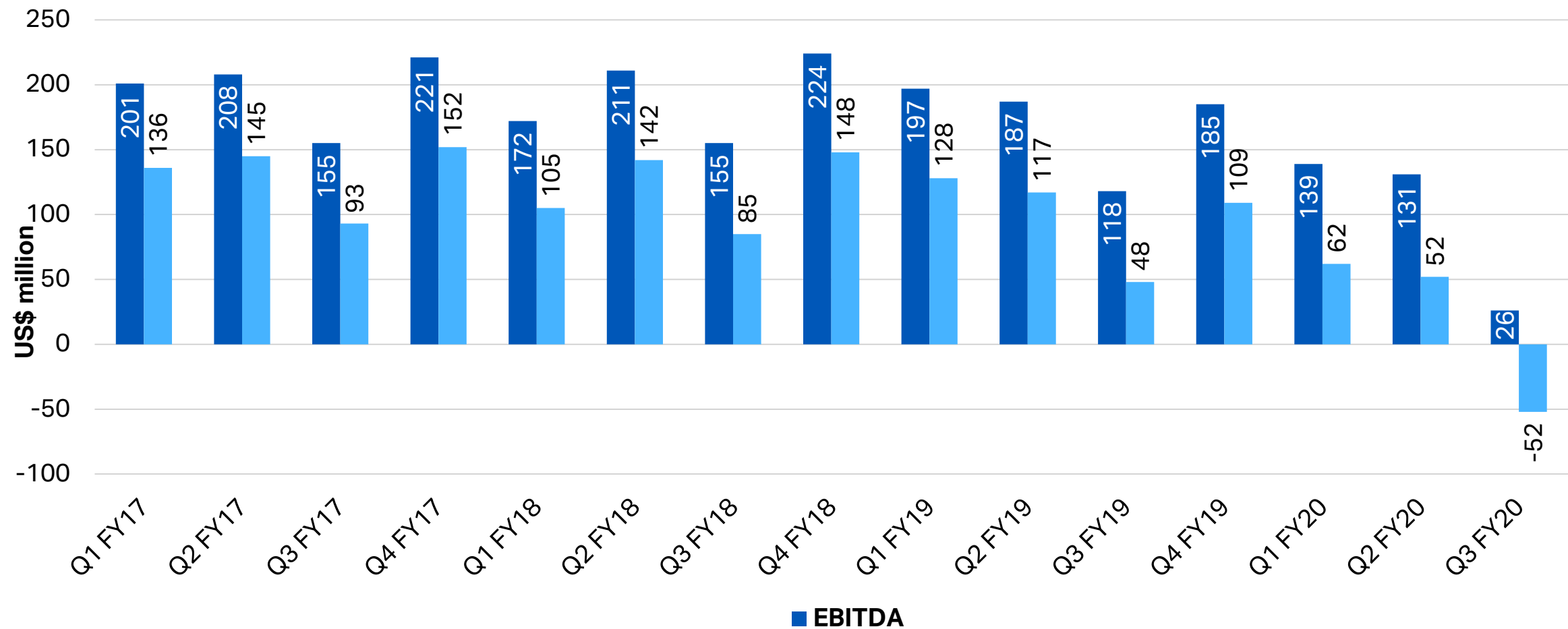
# Supplementary information





# EBITDA and operating profit

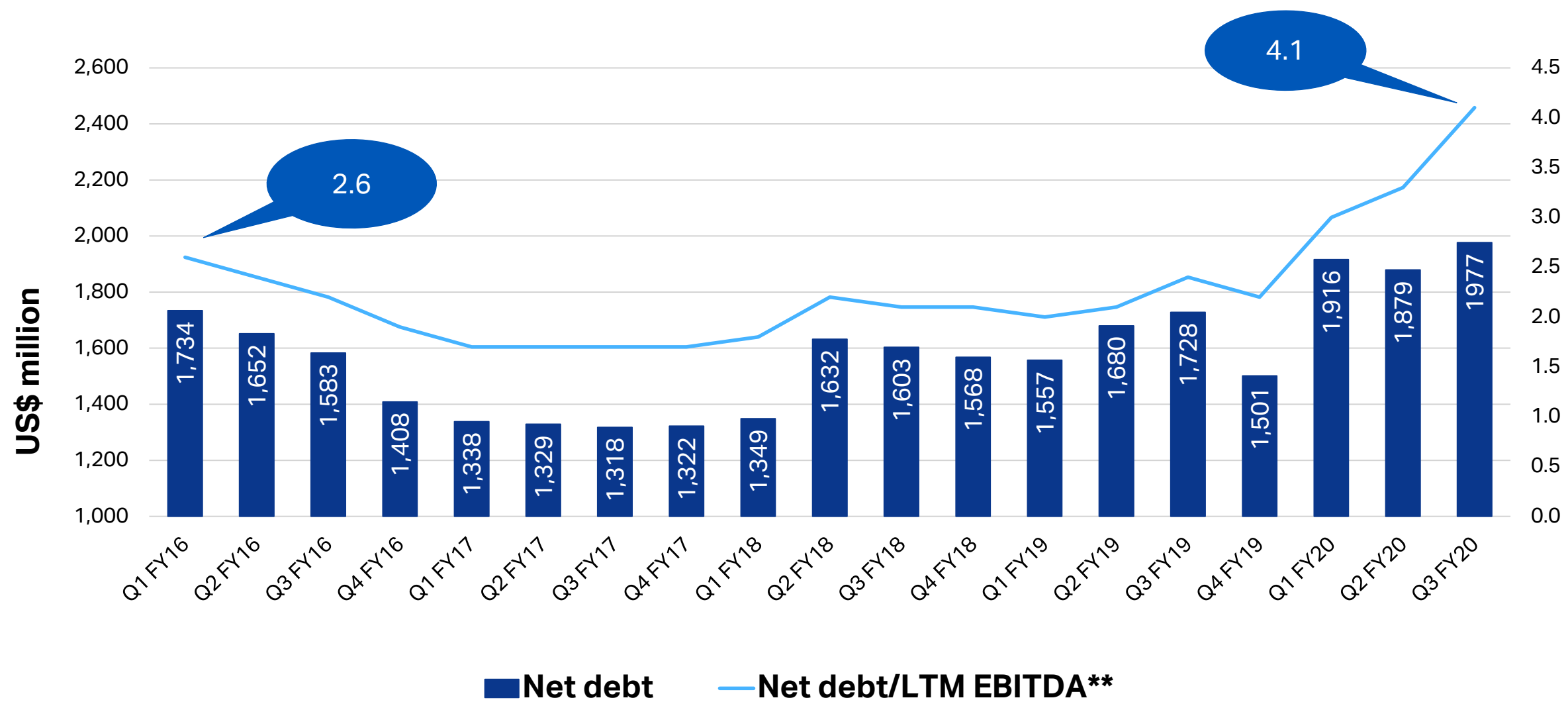
Excluding special items\*



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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 papers production sites



Alfeld Mill (Germany)

Flexible packaging, label paper, paperboard, containerboard, silicone base paper, functional paper



Stockstadt Mill (Germany)

Label paper, flexible packaging, containerboard



Condino Mill (Italy)

Flexible packaging, silicone base paper, dye sublimation paper



Somerset Mill (USA)

Label paper, paperboard, flexible packaging



Tugela Mill (South Africa)

Containerboard



Maastricht Mill (Netherlands)

Paperboard



Lanaken Mill (Belgium)

Functional paper



Rockwell Solutions (Scotland)

Functional papers and flexible packaging



Cloquet Mill (USA)

Label paper



Ngodwana Mill (South Africa)

Containerboard



Ehingen Mill (Germany)

Containerboard



Carmignano Mill (Italy)

Flexible packaging, label paper, inkjet paper, dye sublimation paper



Westbrook Mill (USA)

Casting and Release paper

# Packaging and speciality papers

## Sappi Europe

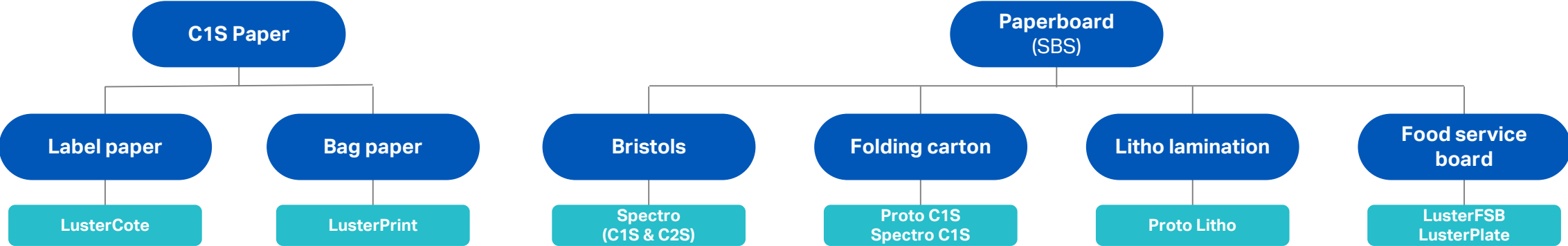
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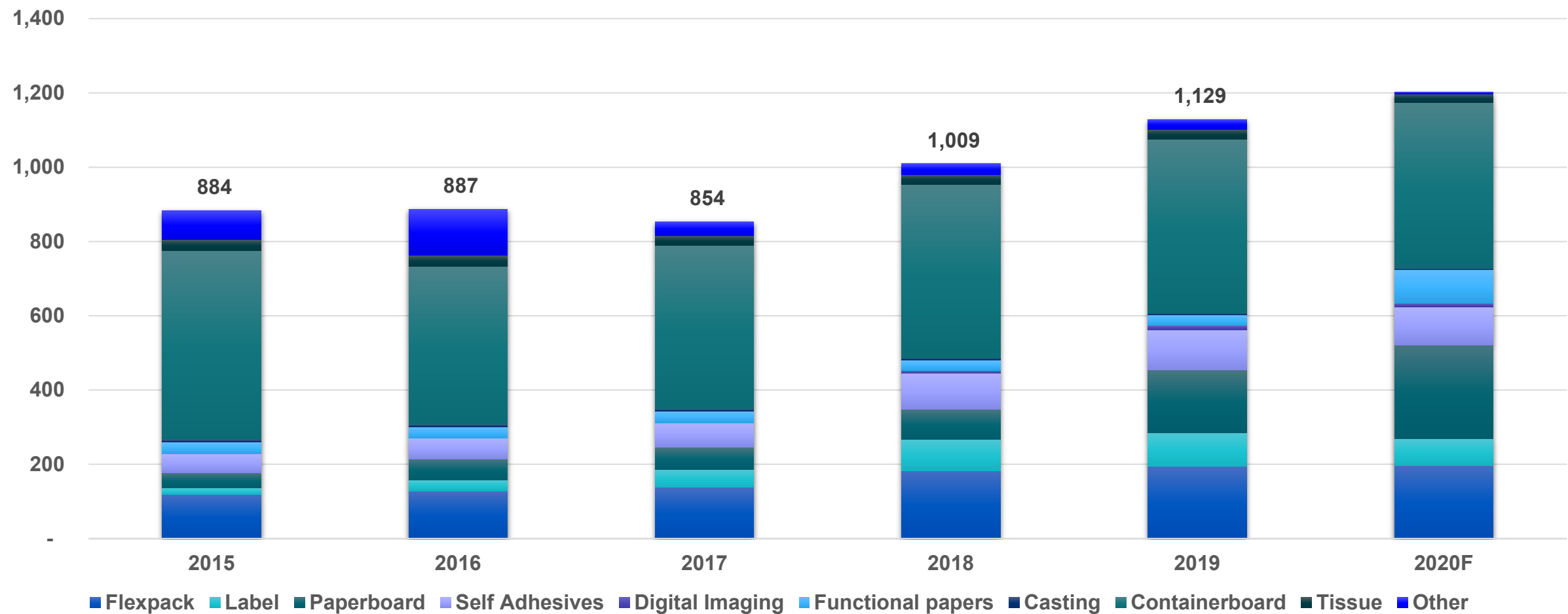


# Packaging and speciality papers

## Sappi North America



# Packaging and speciality papers volume growth 2015 to 2020





# Sustainability focus

## EU consumer and brand owner

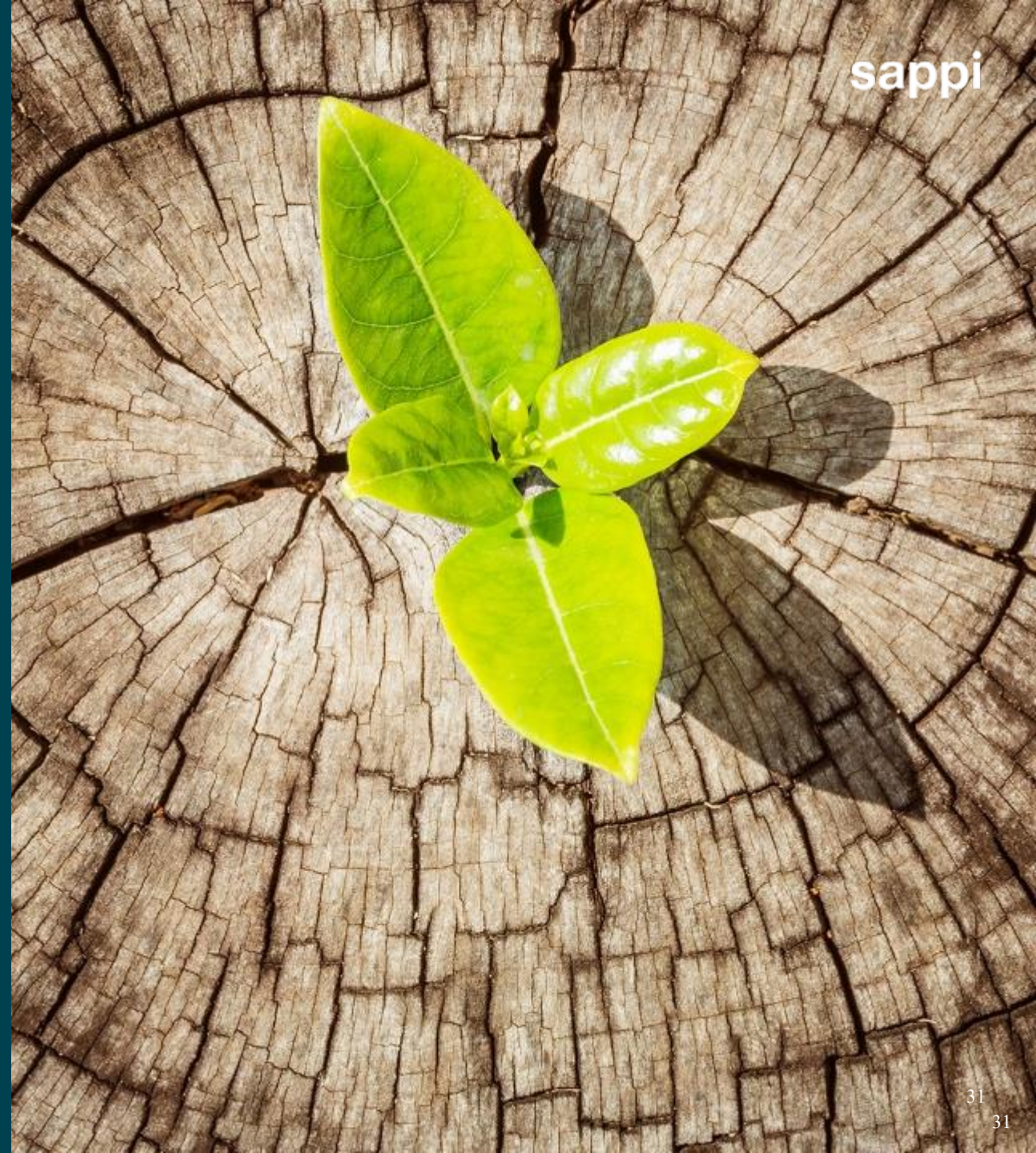
- **Desired outcome**

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

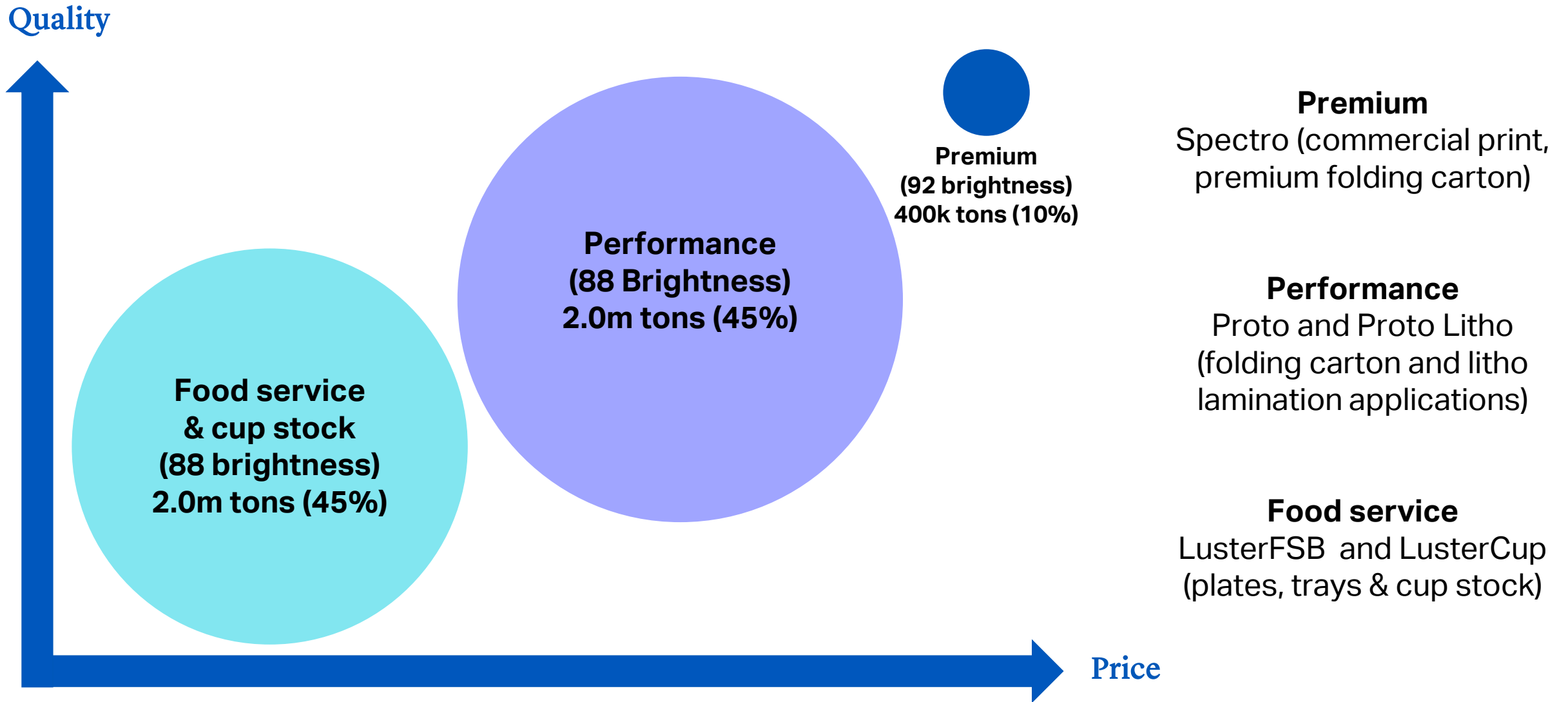
- **Consequences**

- 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 aluminium
- Huge potential for barrier papers and board
- Low carbon footprint is a competitive advantage

**4EverGreen** initiative just started with more than 60 participants



# Paperboard segments North America



Sources: RISI, Poyry, & Chartic; premium volume includes a range of premium folding carton from Sappi estimations.



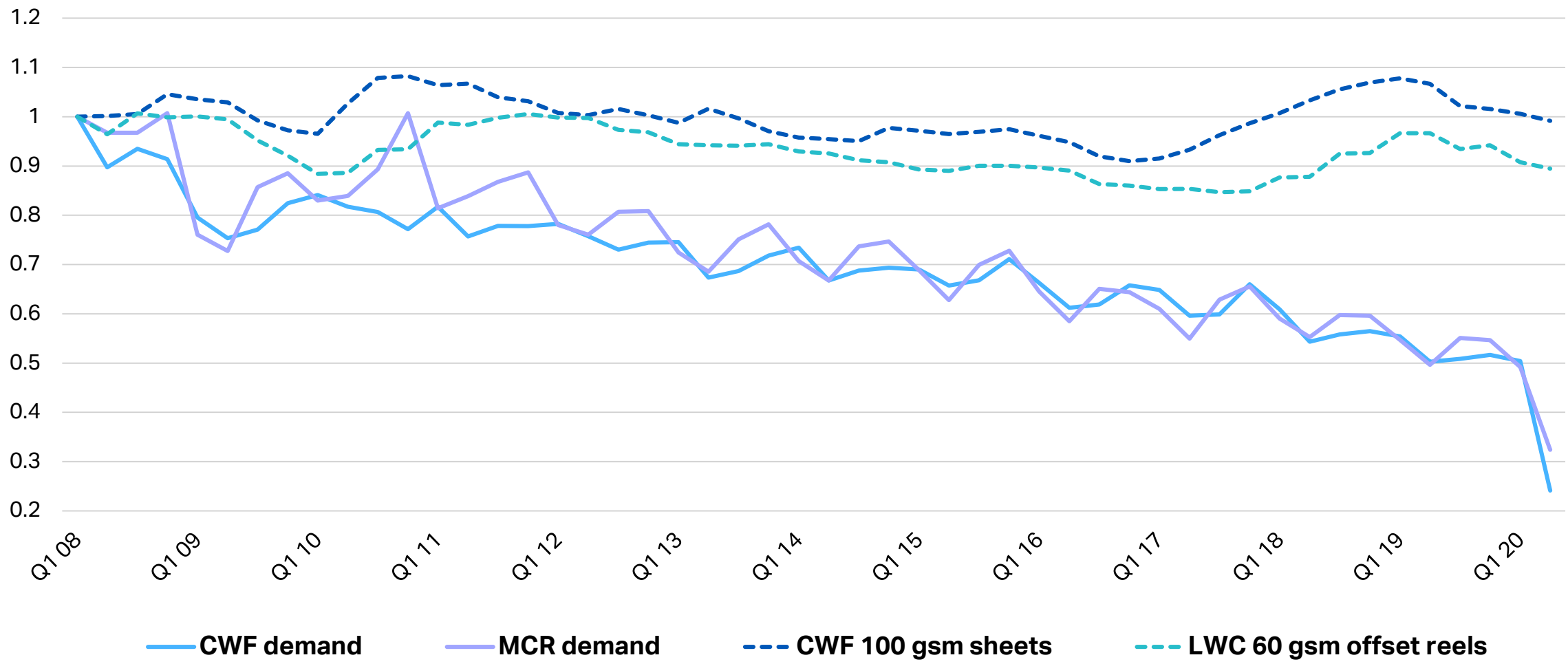
	Q3 FY20	Q2 FY20	Q3 FY19
Tons sold ('000)	540	793	789
Sales (EURm)	420	606	637
Price/Ton (EUR)	778	764	807
Cost/Ton* (EUR)	837	733	785
<b>Operating profit excluding special items** (EURm)</b>	<b>(32)</b>	<b>25</b>	<b>18</b>

\* 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.

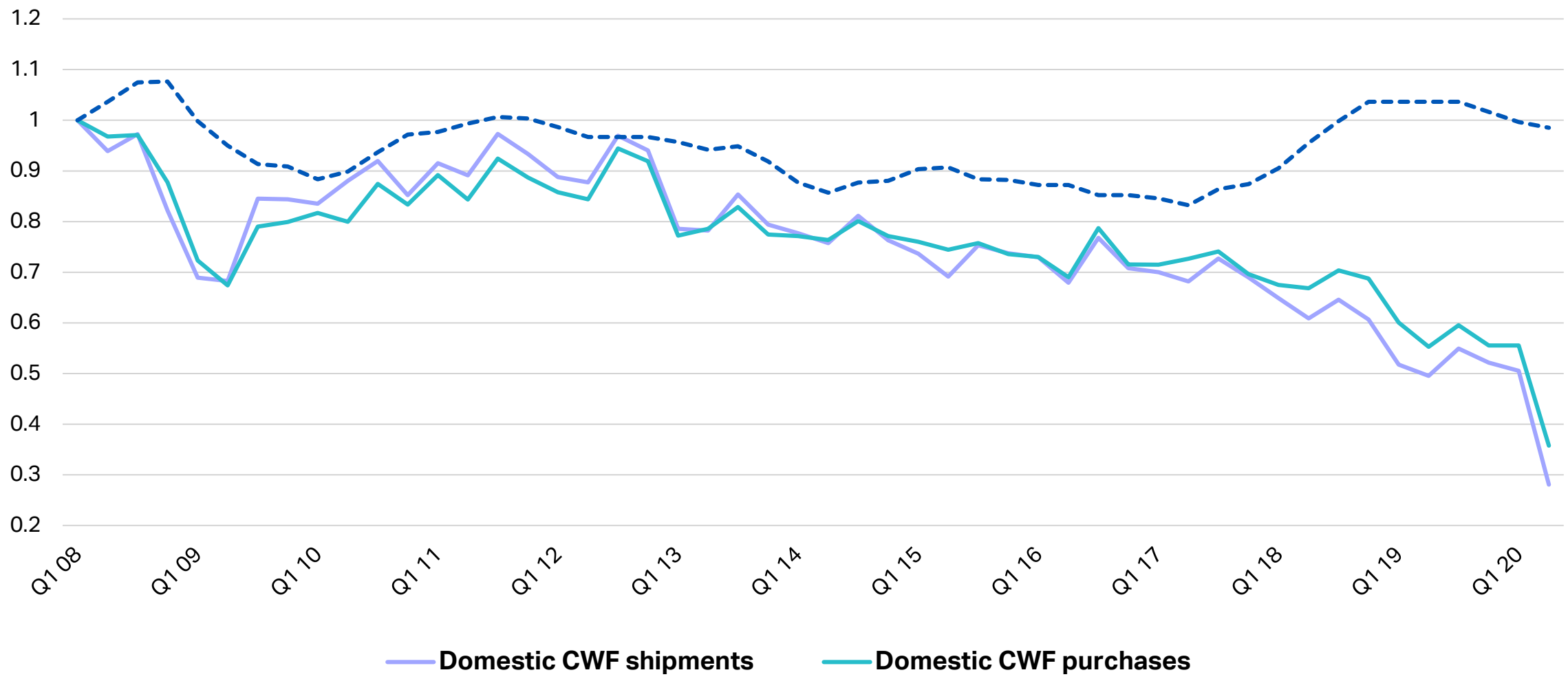
	Q3 FY20	Q2 FY20	Q3 FY19
Tons sold ('000)	307	416	320
Sales (USDm)	267	387	343
Price/Ton (USD)	870	930	1,072
Cost/Ton* (USD)	974	921	1,100
<b>Operating profit excluding special items** (USDm)</b>	<b>(32)</b>	<b>4</b>	<b>(9)</b>

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

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# Coated paper deliveries and prices

## United States of America



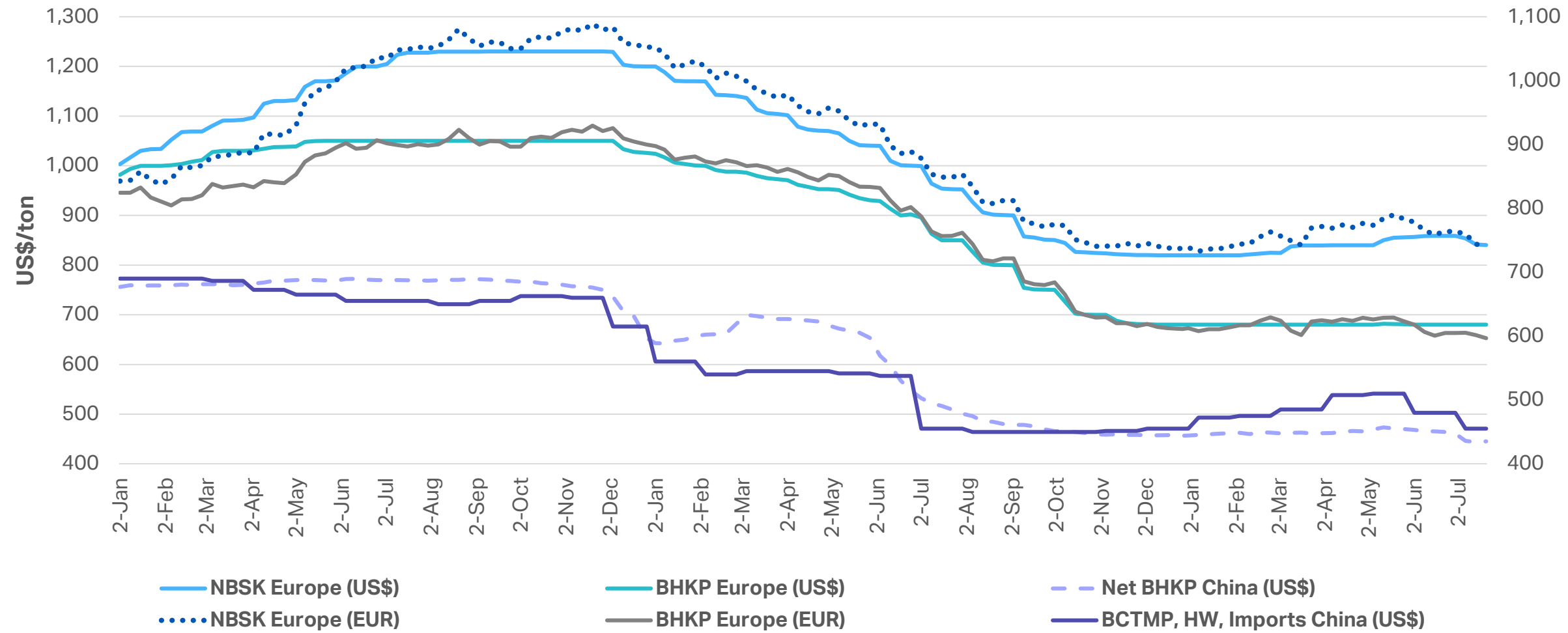
US industry purchases defined as industry shipments, plus imports, less exports.  
Source: AF&PA and RISI indexed to calendar Q1 FY08.

	Q3 FY20	Q2 FY20	Q3 FY19
Tons sold ('000)	310	389	375
Sales (ZARm)	3,506	3,979	4,418
Price/Ton (ZAR)	11,310	10,229	11,781
Cost/Ton* (ZAR)	10,452	9,404	10,459
<b>Operating profit excluding special items** (ZARm)</b>	<b>266</b>	<b>321</b>	<b>496</b>

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

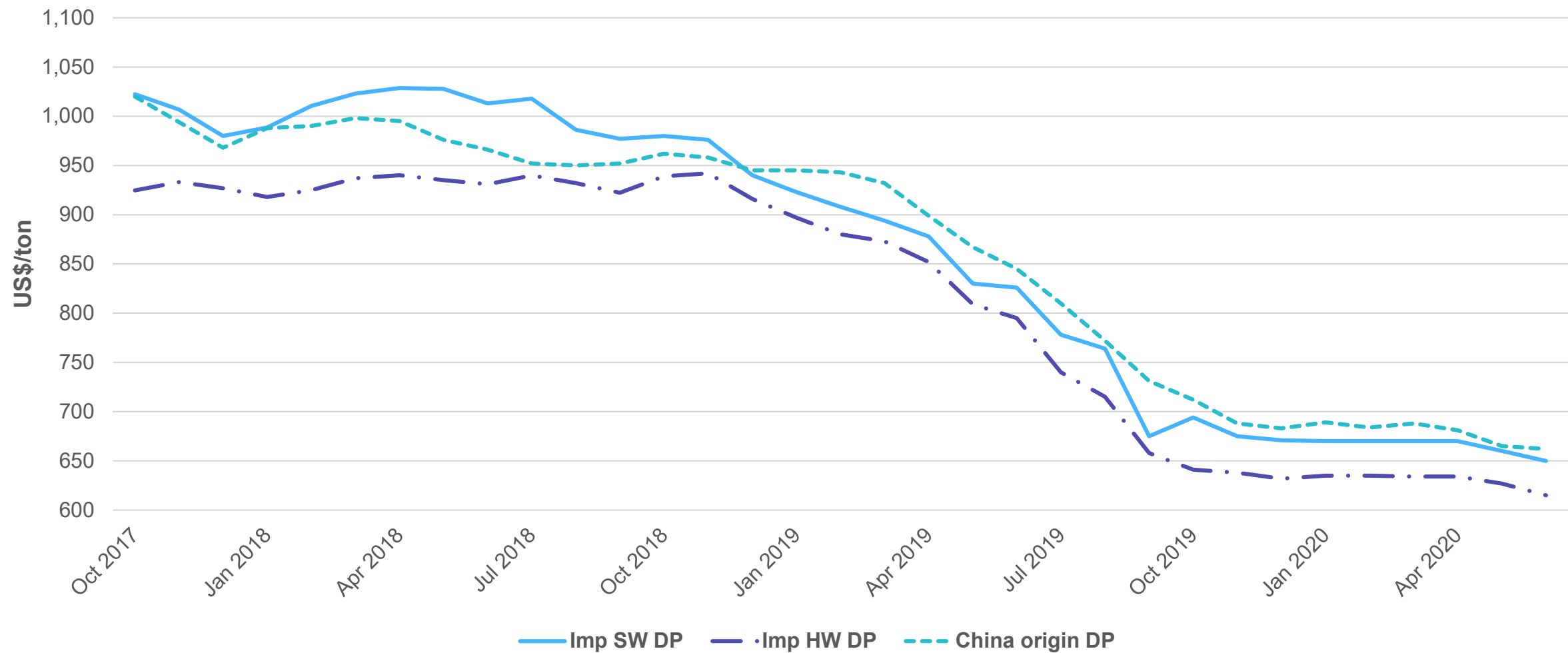
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# Paper pulp prices



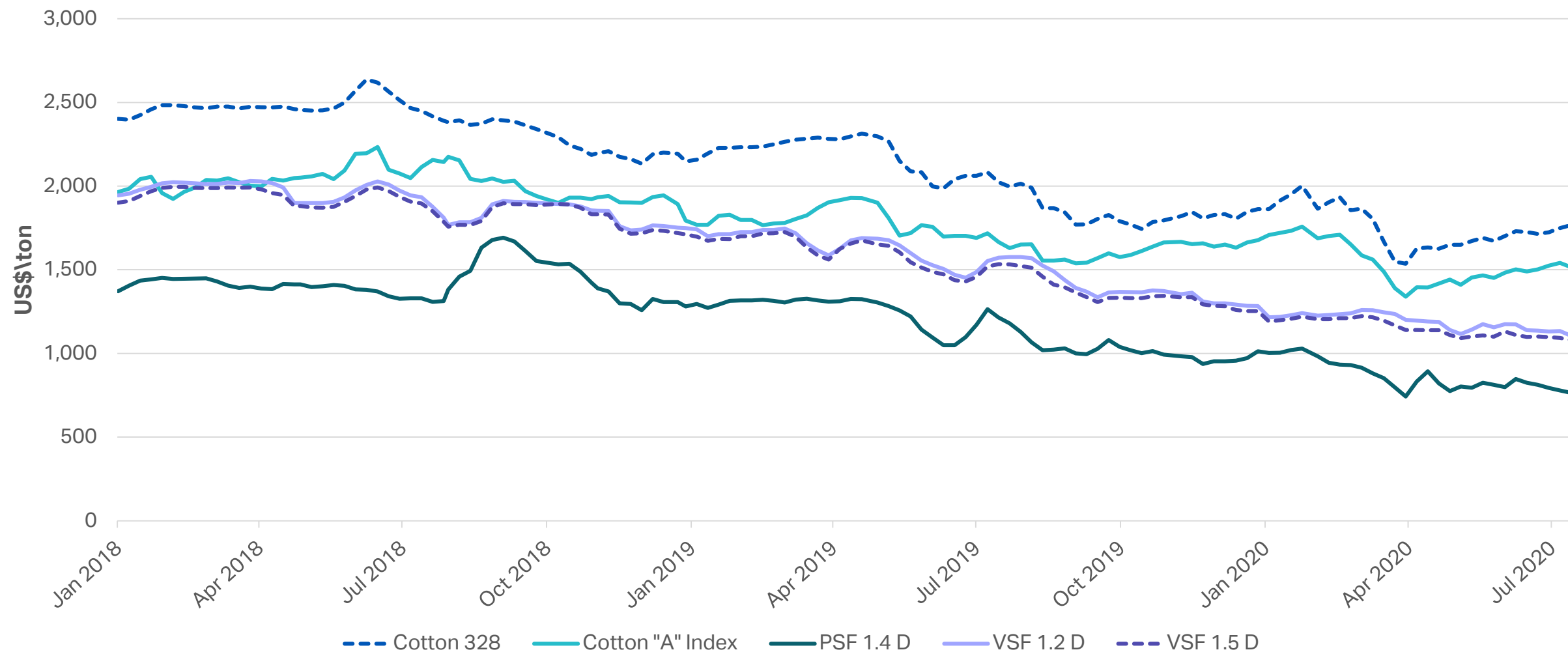
Source: FOEX, CCF group, RISI.

# Dissolving pulp prices



Source: CCF group.

# Textile fibre prices





# Cash flow

US\$m	Q3 FY20	Q2 FY20	Q3 FY19
<b>Cash generated from operations</b>	<b>25</b>	<b>116</b>	<b>118</b>
Movement in working capital	20	(14)	20
Finance costs paid	(48)	(18)	(16)
Finance income received	1	1	1
Taxation (paid) refund	13	(11)	(5)
Dividend paid	-	-	-
<b>Cash generated from operating activities</b>	<b>11</b>	<b>74</b>	<b>118</b>
<b>Cash utilised in investing activities</b>	<b>(78)</b>	<b>(74)</b>	<b>(135)</b>
Capital expenditure	(74)	(70)	(135)
Proceeds on disposal of assets	-	-	1
Acquisition of subsidiary	(2)	-	-
Other non-current asset movements	(2)	(4)	(1)
<b>Net cash generated (utilised)</b>	<b>(67)</b>	<b>-</b>	<b>(17)</b>

# EBITDA and operating profit

## Excluding special items\* reconciliation to reported operating profit

US\$m	Q3 FY20	Q2 FY20	Q3 FY19
<b>EBITDA excluding special items*</b>	<b>26</b>	<b>131</b>	<b>118</b>
Depreciation and amortisation	(78)	(79)	(70)
<b>Operating profit excluding special items*</b>	<b>(52)</b>	<b>52</b>	<b>48</b>
<b>Special items* - gains (losses)</b>	<b>(20)</b>	<b>(29)</b>	<b>(2)</b>
Plantation price fair value adjustment	5	3	1
Acquisition cost	-	-	-
Net restructuring provisions	(5)	(12)	-
Profit (loss) on disposal and written off assets	1	-	(1)
PPE impairments	-	(11)	-
Equity investment impairments	(10)	-	-
Fire, flood, storm and other events	(11)	(9)	(2)
<b>Operating profit</b>	<b>(72)</b>	<b>23</b>	<b>46</b>

\* Refer to page 25 in our Q3 FY20 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

# Thank you