

# Q4 FY16 financial results

10 November 2016



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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



## FY 2016

- EBITDA ex-special items US\$739m (FY15 US\$625m)
- Profit for the period US\$319m (FY15 US\$167m)
- EPS ex-special items 57 US cents (FY15 34 US cents)
- Net debt US\$1,408m, down US\$363m year-on-year
- Dividend of 11 US cents per share declared

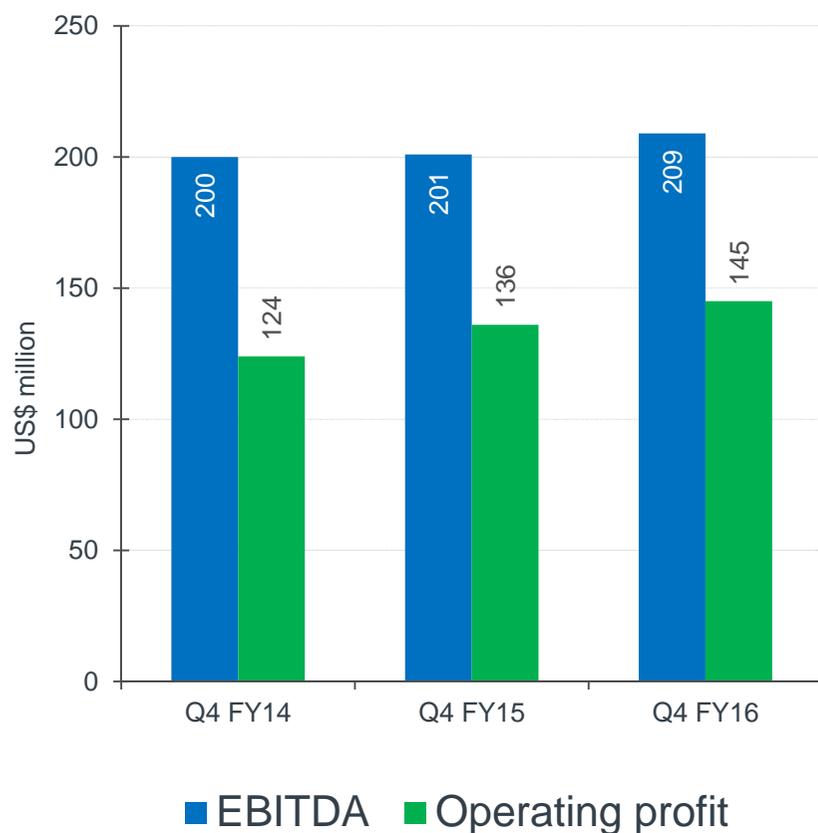
## Q4 FY16

- EBITDA ex-special items US\$209m (FY15 US\$201m)
- Profit for the period US\$112m (FY15 US\$83m)
- EPS ex-special items 18 US cents (FY15 16 US cents)

# EBITDA and operating profit



Excluding special items\*



## Key ratios

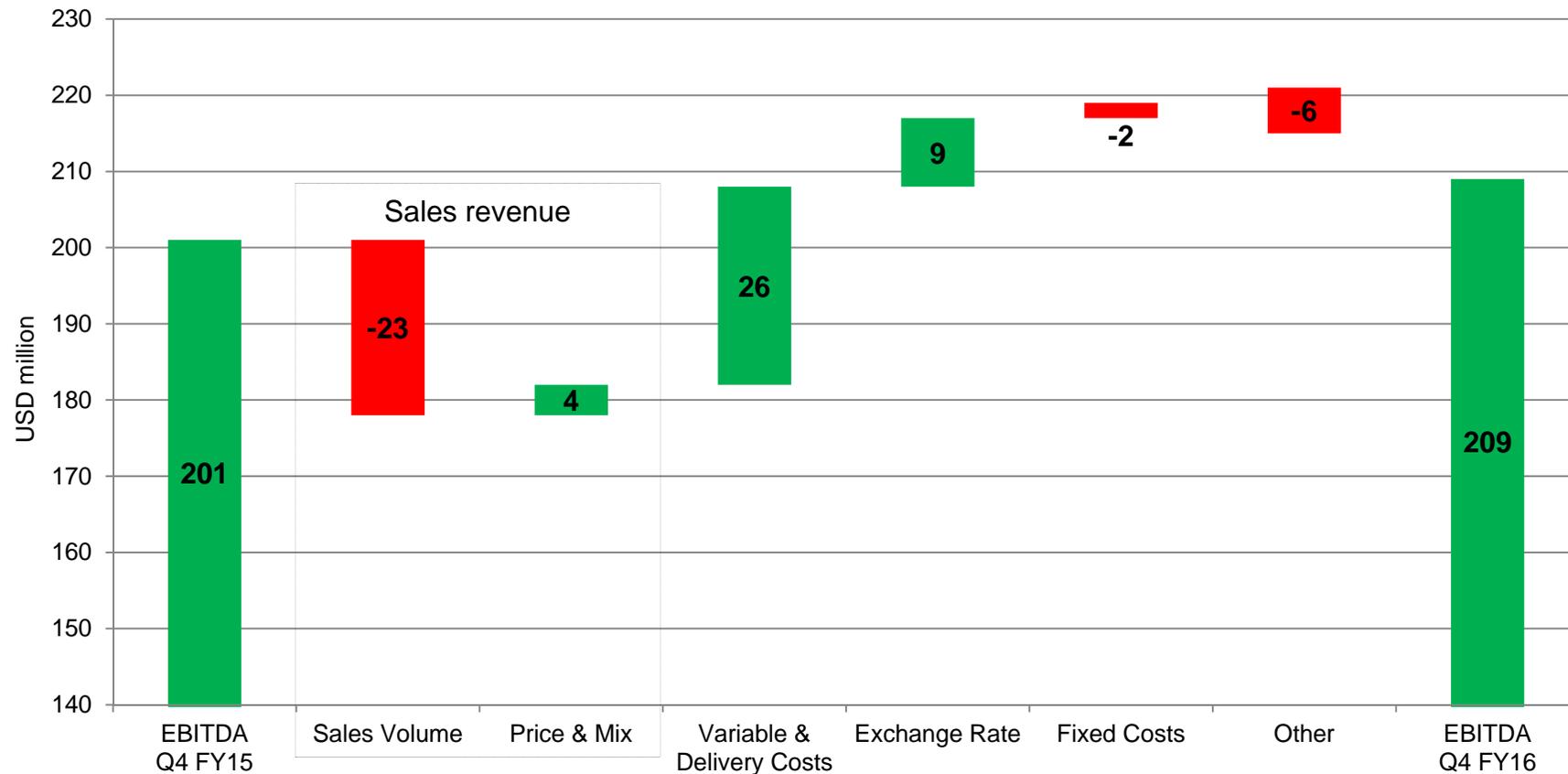
	Q4 FY14	Q4 FY15	Q4 FY16
Net Debt/ LTM EBITDA	2.9	2.8	1.9
Interest Cover	3.6	4.4	7.3
EBITDA %	13.3	14.3	15.6
ROCE %	15.4	18.7	20.9

\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q4 FY16 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

# EBITDA Bridge\*



Q4 FY15 to Q4 FY16



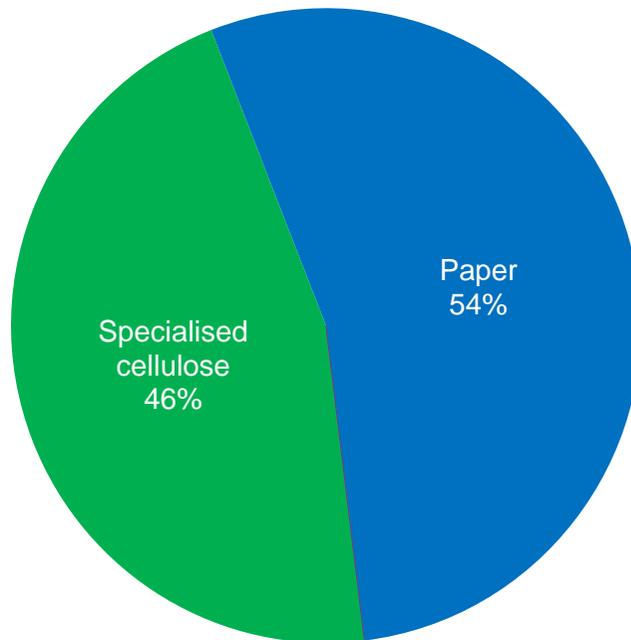
- All variances calculated excluding Sappi Forestry.
- “Exchange rate” reflects the impact of changes in the average rates of translation of foreign currency results.

\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q4 FY16 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

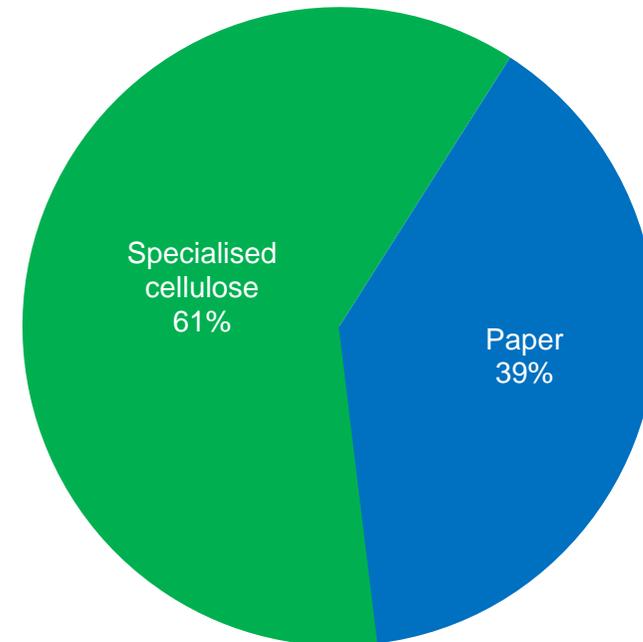
# Product contribution split - LTM



EBITDA excluding special items\*

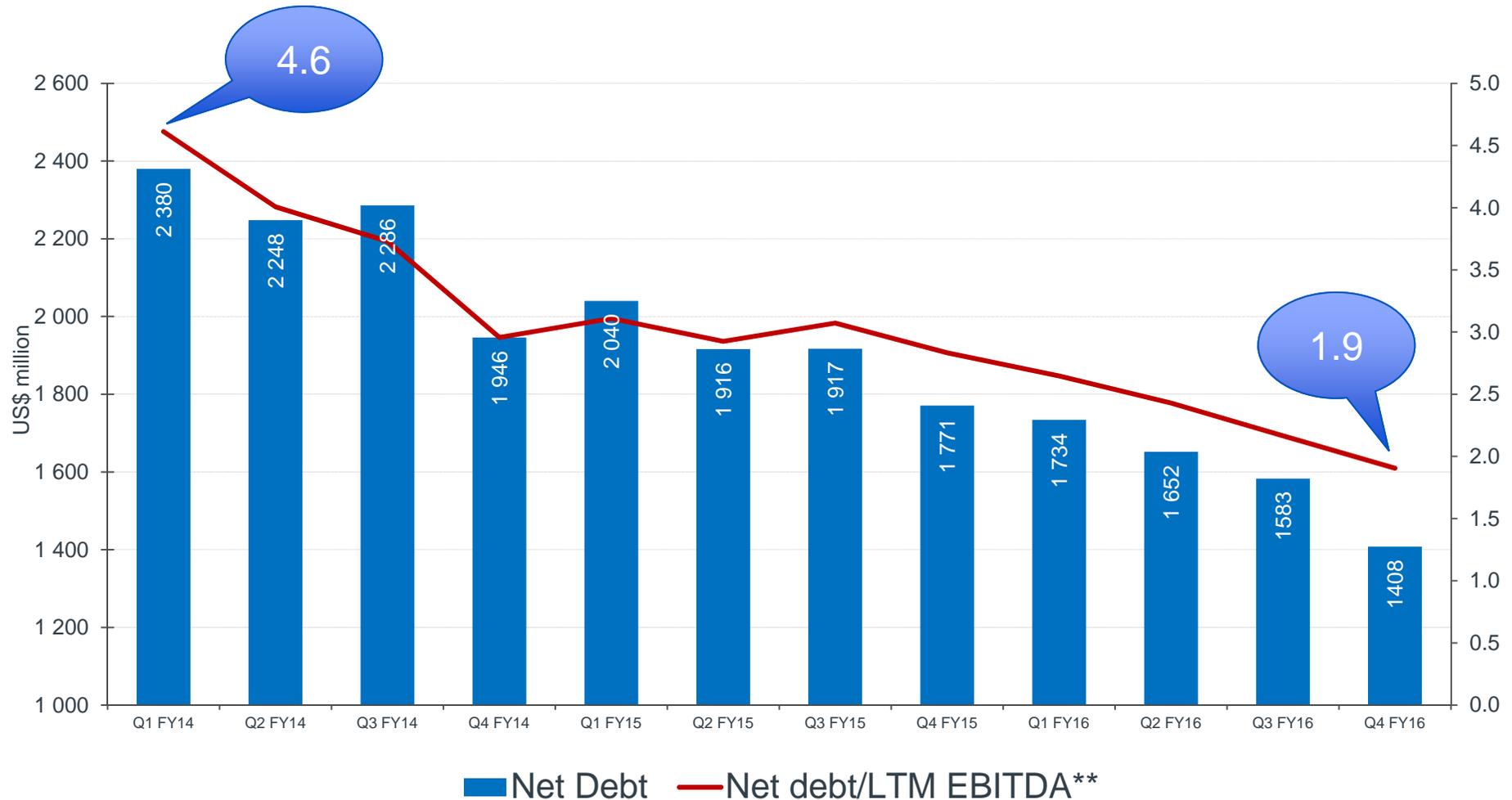


Operating profit excluding special items



\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q4 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.

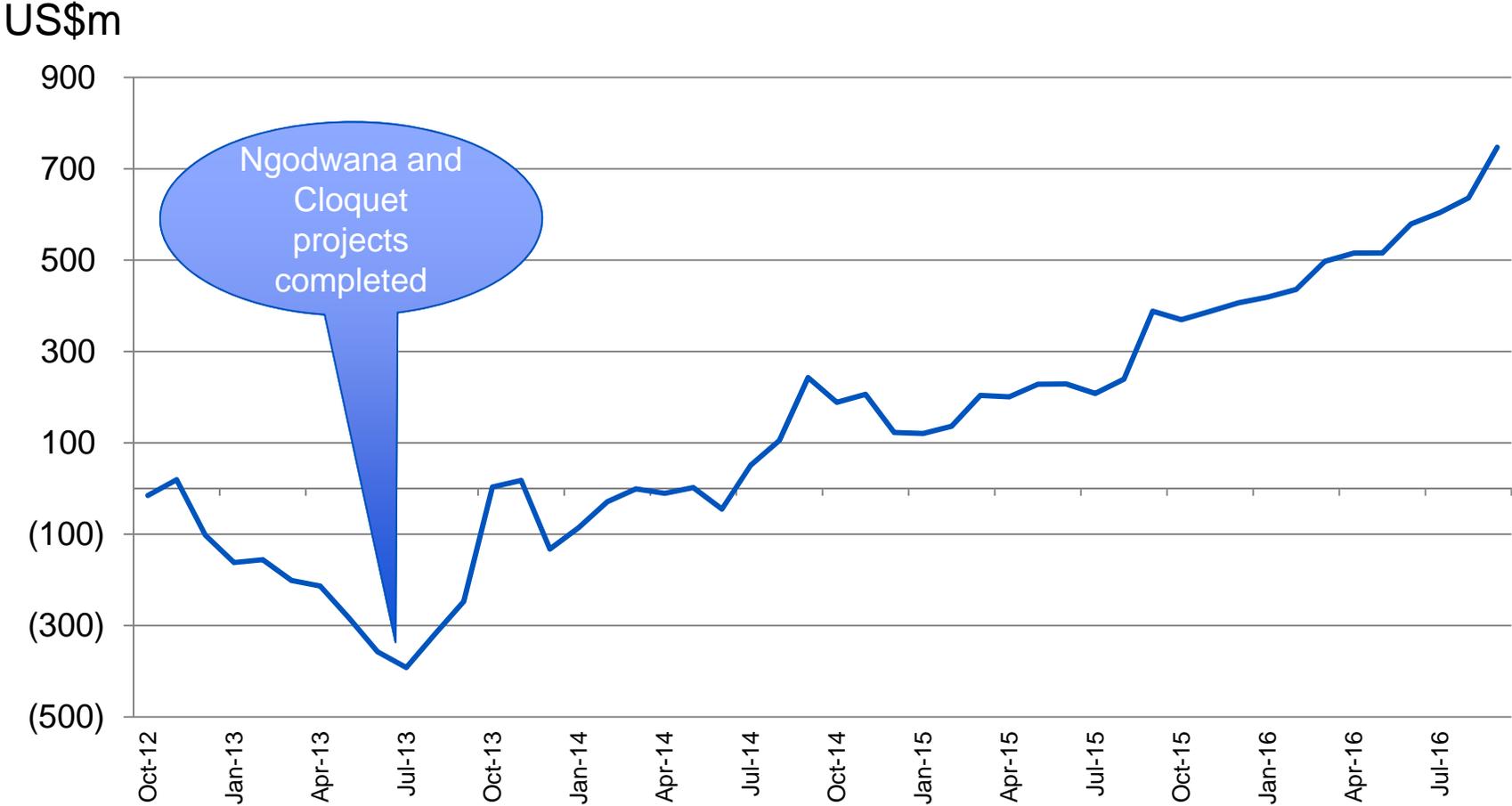
# Net debt/EBITDA development



\* EBITDA is excluding special items

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

# Cumulative Cash Flow

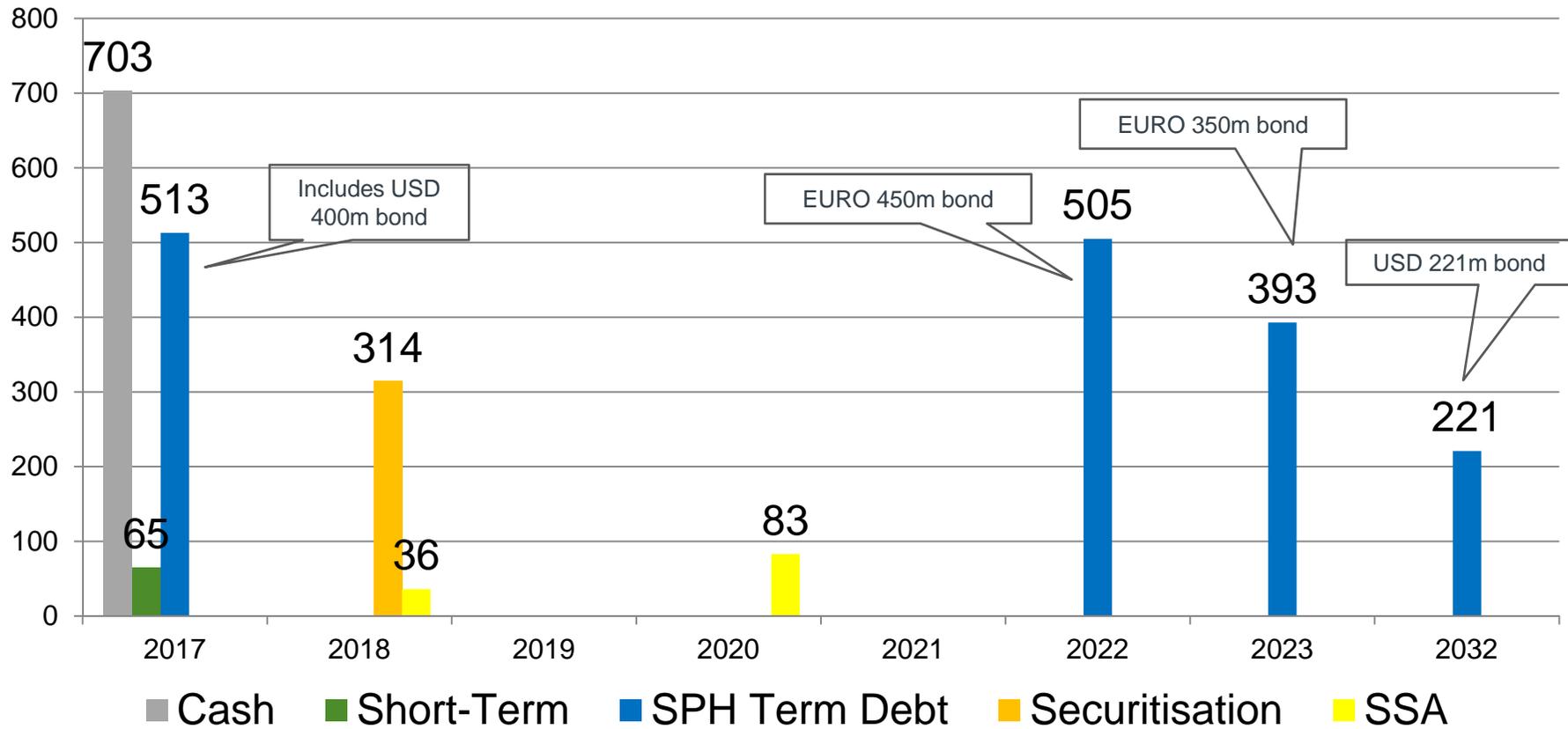


# Maturity profile

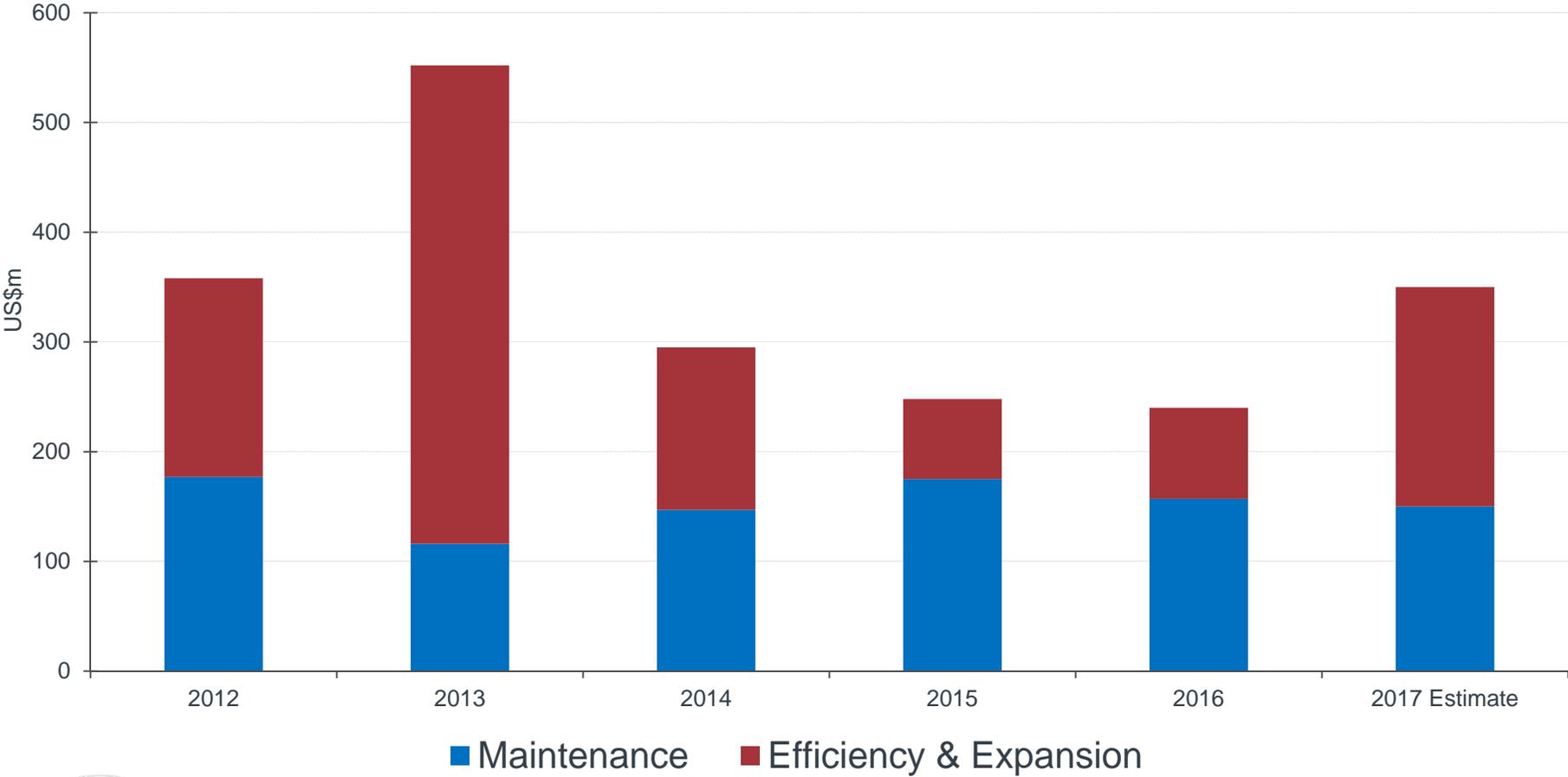


Fiscal years

US\$m



# Capex development



# Divisional overviews



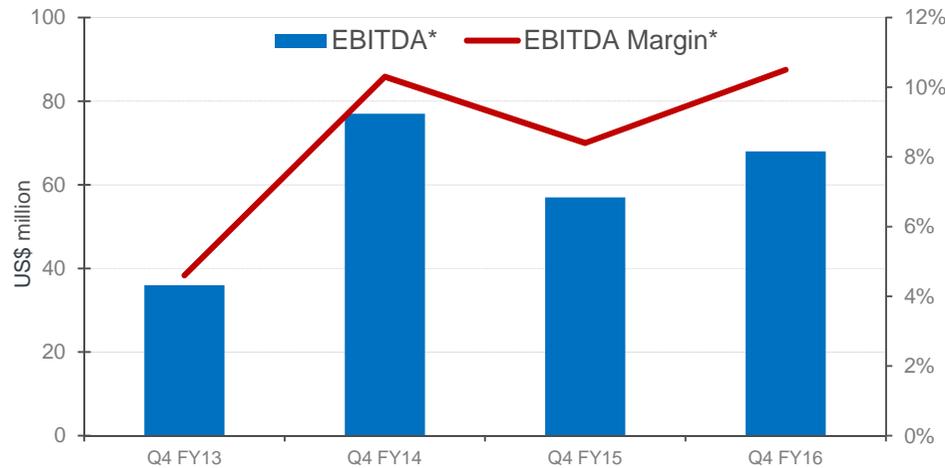
# Global paper market trends



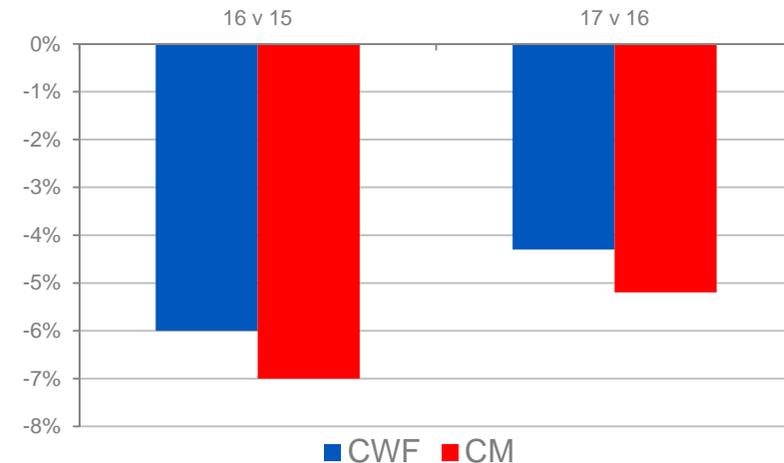
- Supply and demand
  - Uncertain macro backdrop leads to decline in consumer confidence and advertising spend
  - Operating rates declining
  - Industry closures/conversions required – CM & SC closures announced
  - Speciality paper demand continues to grow 1-5%
- Selling prices and input costs
  - Selling prices declining – driven by operating rates, currency and costs
  - 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\*\*



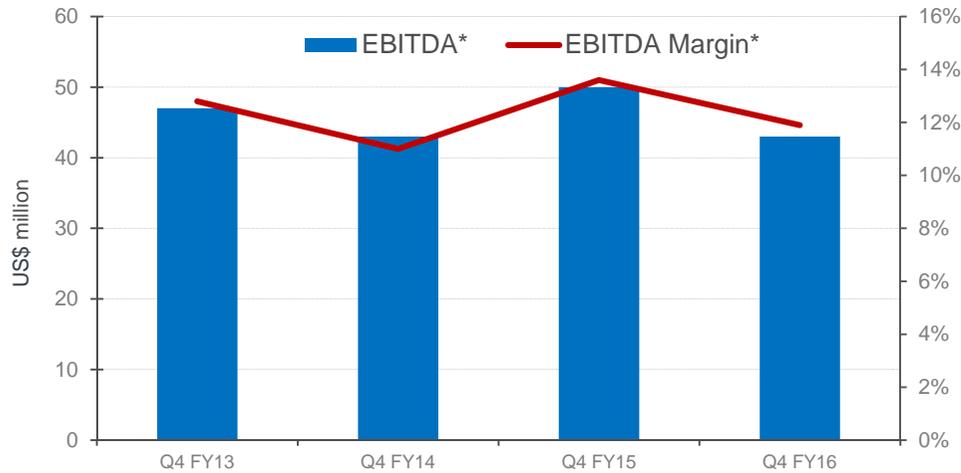
- Improved year-on-year performance despite soft demand and flat pricing
- Speciality paper volumes up 15% whereas market average is 1%-5%
- Variable costs were down across all major categories due to favourable pricing and efficiency improvements



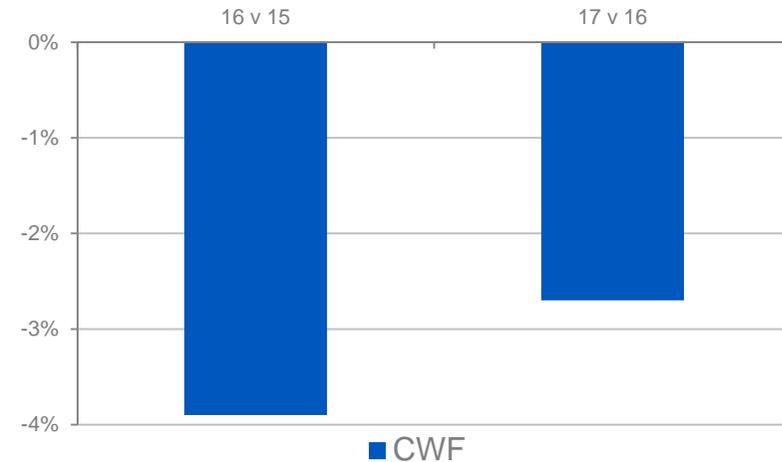
\* EBITDA and EBITDA margin shown exclude special items. Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q4 FY16 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

\*\* Source: RISI & Sappi

# 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 flat with growth coming in the decorative laminate and automotive end-use segments, China weak
- Lower variable costs, particularly chemicals, wood and energy helped improve margins

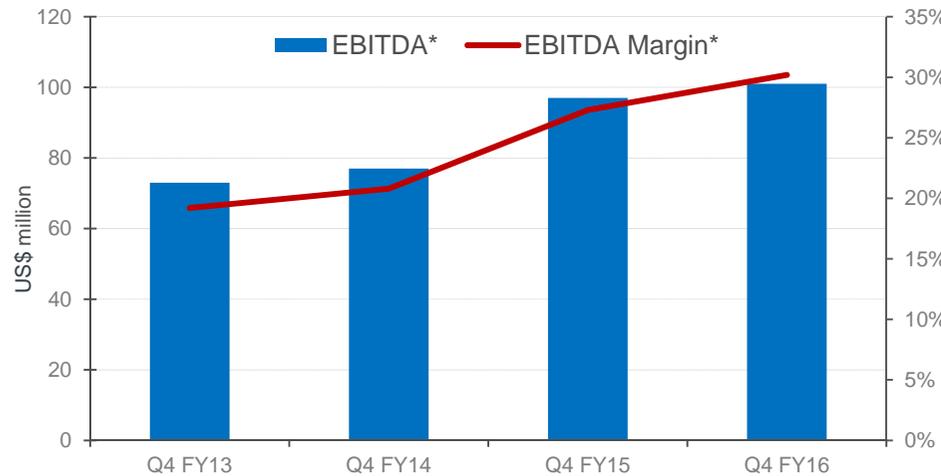
# Global dissolving wood pulp market trends

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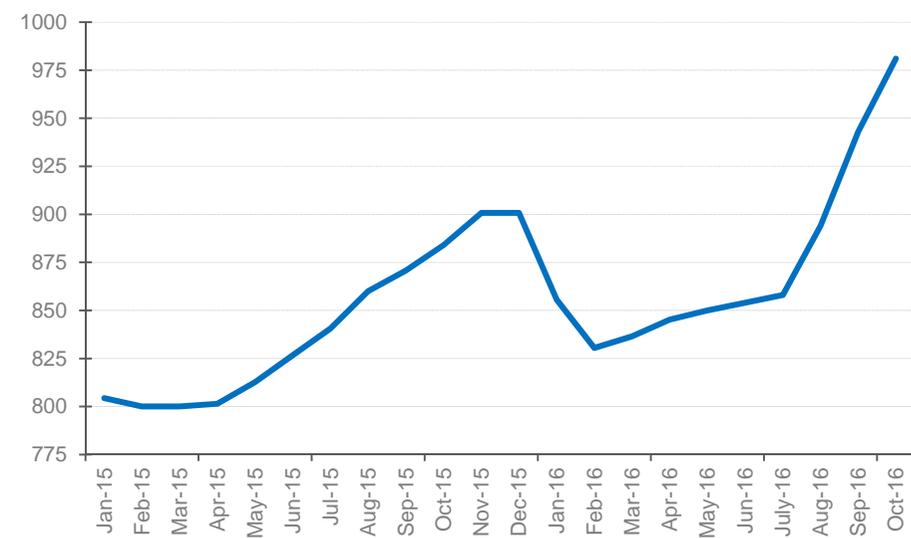
- Supply and demand
  - Most swing capacity has entered the market as hardwood paper pulp prices fell
  - Continued strong demand
  - Constrained Cotton Linter Pulp supply – tightening DWP market
- Selling prices and input costs
  - Spot prices rising alongside cotton and VSF prices and tight supply
  - Currency fluctuations generally favour producers with non-USD cost base
- Strategy
  - Maintain low-cost position
  - Continue working with customers to support common growth
  - Debottlenecking SA mills – to add 100kt
  - Investigate adjacent end-uses



# Sappi Southern Africa



Market price - Staple Grade DWP (US\$/ton)\*\*

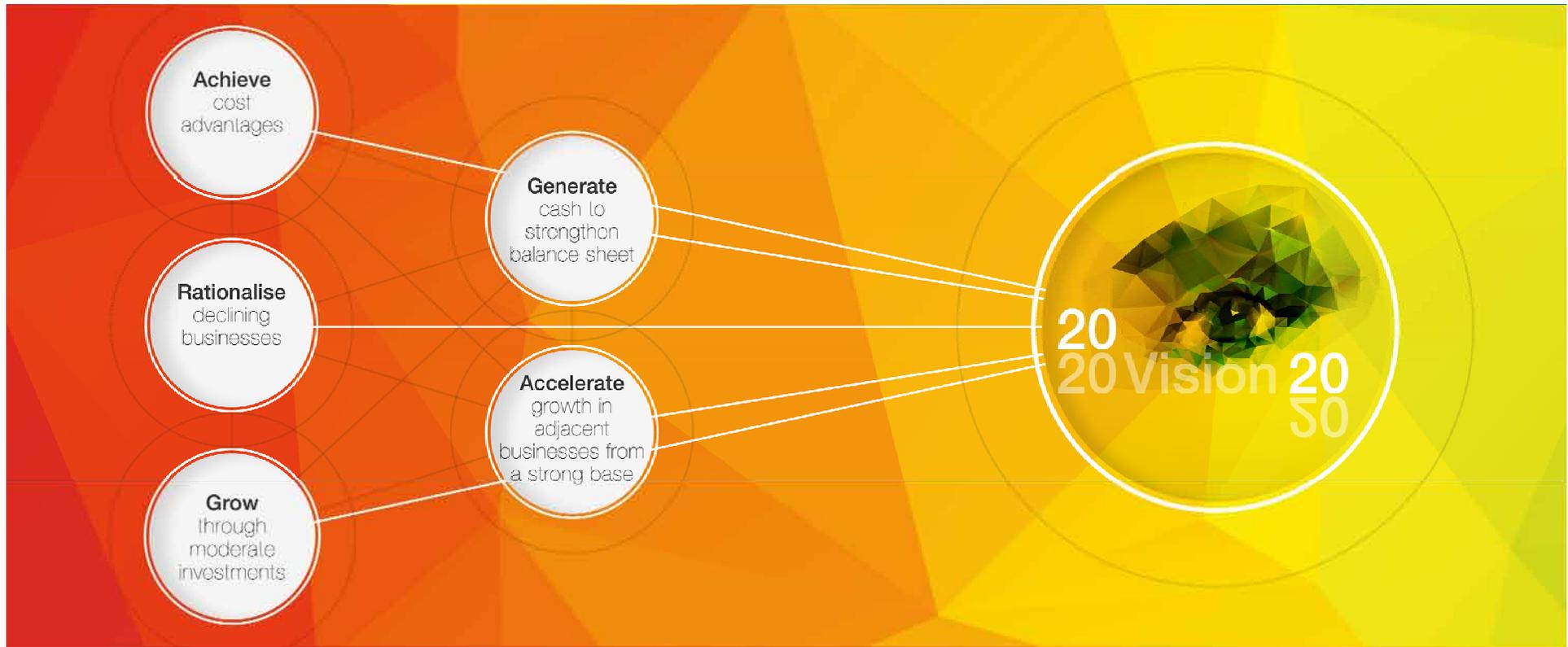


- Underlying demand and pricing strong for containerboard despite SA drought
- Strong quarter – higher selling prices and better paper sales mix
- DWP prices rose on a reduced cotton crop and strong downstream demand.
- Weaker exchange rate led to increased wood and chemicals prices, which were offset by lower energy and raw material usage improvements

\* 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 Q4 FY16 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

\*\* 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 – US\$13m realised in 2016
  - Ongoing continuous improvement across all mills
  - US\$25m investment in Somerset Woodyard

# Cost Saving Initiative

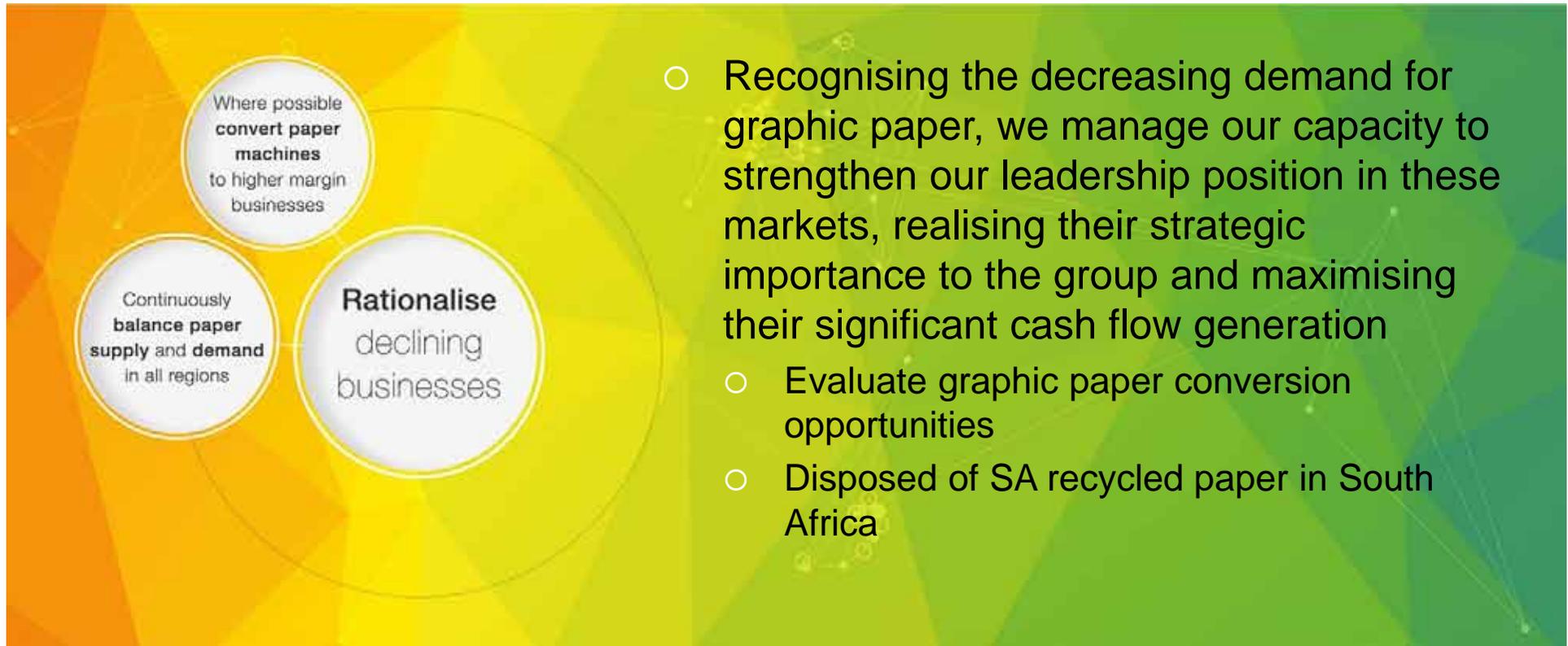


- US\$100m target from all third-party spend- savings exclude market effects
- US\$13million realised in 2016 in addition to usual CI Initiatives
- An additional US\$50m expected to be realised in FY2017 – to offset lower graphic paper prices
- Major focus areas:
  - Logistics and wood – US
  - Wood and energy – SA
  - Pulp, energy and non-fibre raw materials - EU
  - Global freight

# Focus areas



Rationalise and optimise declining businesses



# Focus areas



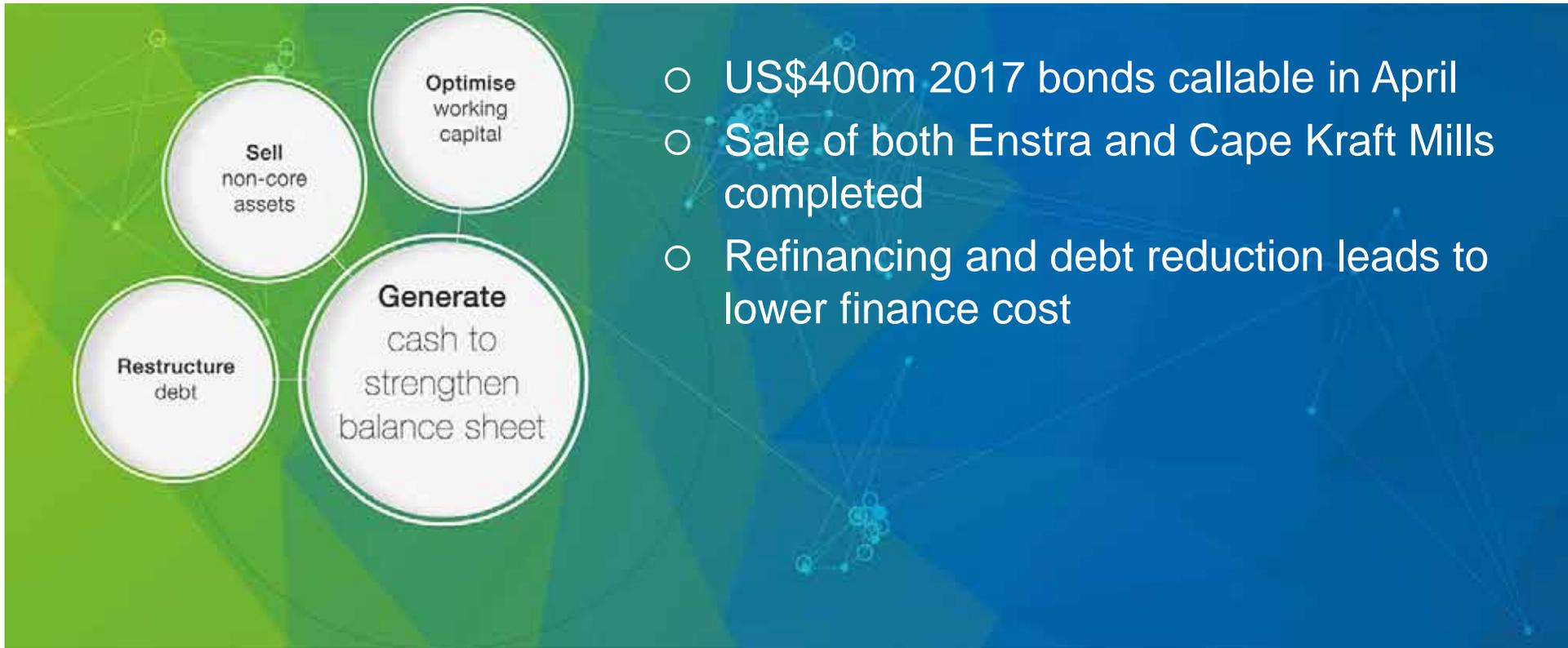
Grow through moderate investments



# 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



- DWP demand and pricing remains positive
- Demand and prices for graphic paper have weakened - low input costs are allowing us to maintain margins.
- Based on current market conditions, and assuming current exchange rates, we expect FY17 EBITDA to be in-line with that of FY16.
- FY17 capex approximately US\$350m: increased investment capex
- Reduce net debt further and possible repayment of 2017 US\$400m bonds

# Thank you –



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# Supplementary information

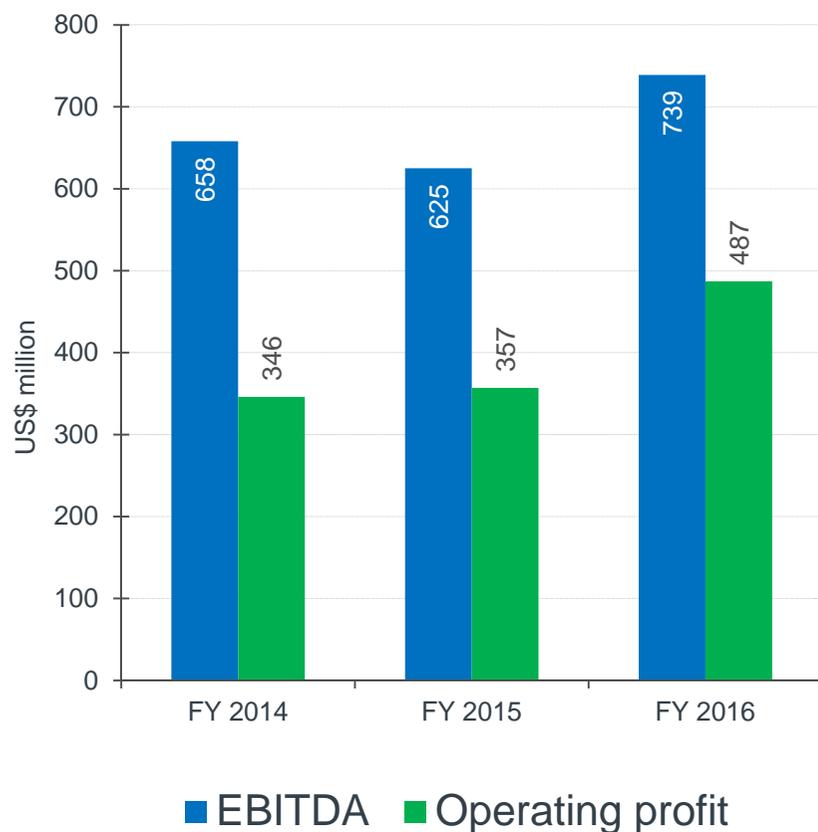


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# EBITDA and operating profit



Excluding special items\*



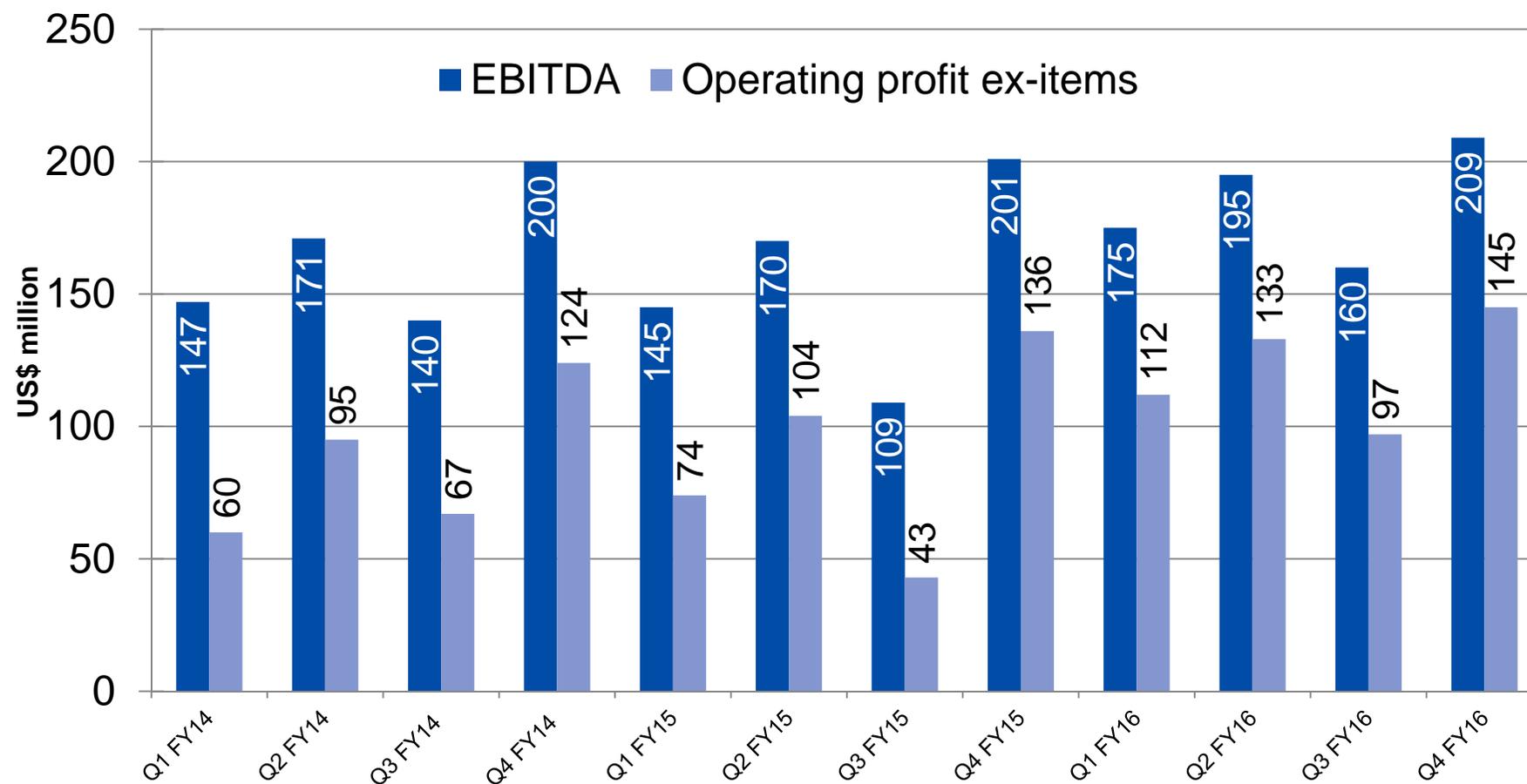
## Key ratios

	FY 14	FY 15	FY 16
Net Debt/ LTM EBITDA	2.9	2.8	1.9
Interest Cover	3.6	4.4	7.3
EBITDA %	10.9	11.6	14.4
ROCE %	10.8	12.4	17.5

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# EBITDA and operating profit

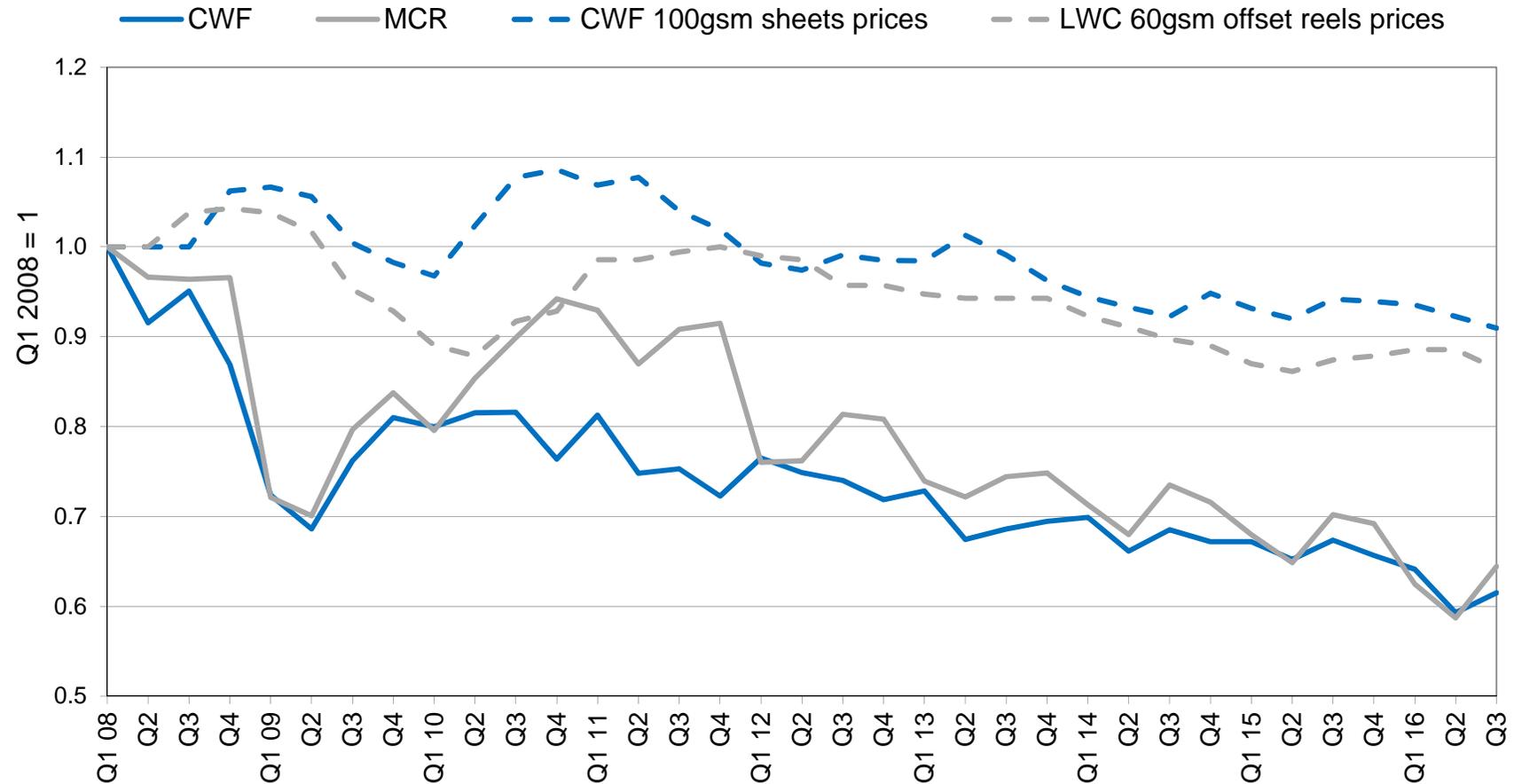
Excluding special items\*



# Coated paper deliveries and prices



## Western Europe



# Sappi Europe



	Q4 FY16	Q4 FY15	YTD 16	YTD 15
Tons sold ('000)	822	847	3,252	3,242
Sales (EURm)	579	609	2,324	2,313
Price/Ton (EUR)	704	719	715	713
Cost/Ton* (EUR)	667	692	678	694
<b>Operating profit excluding special items** (EURm)</b>	<b>31</b>	<b>23</b>	<b>118</b>	<b>64</b>

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

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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

# Sappi North America

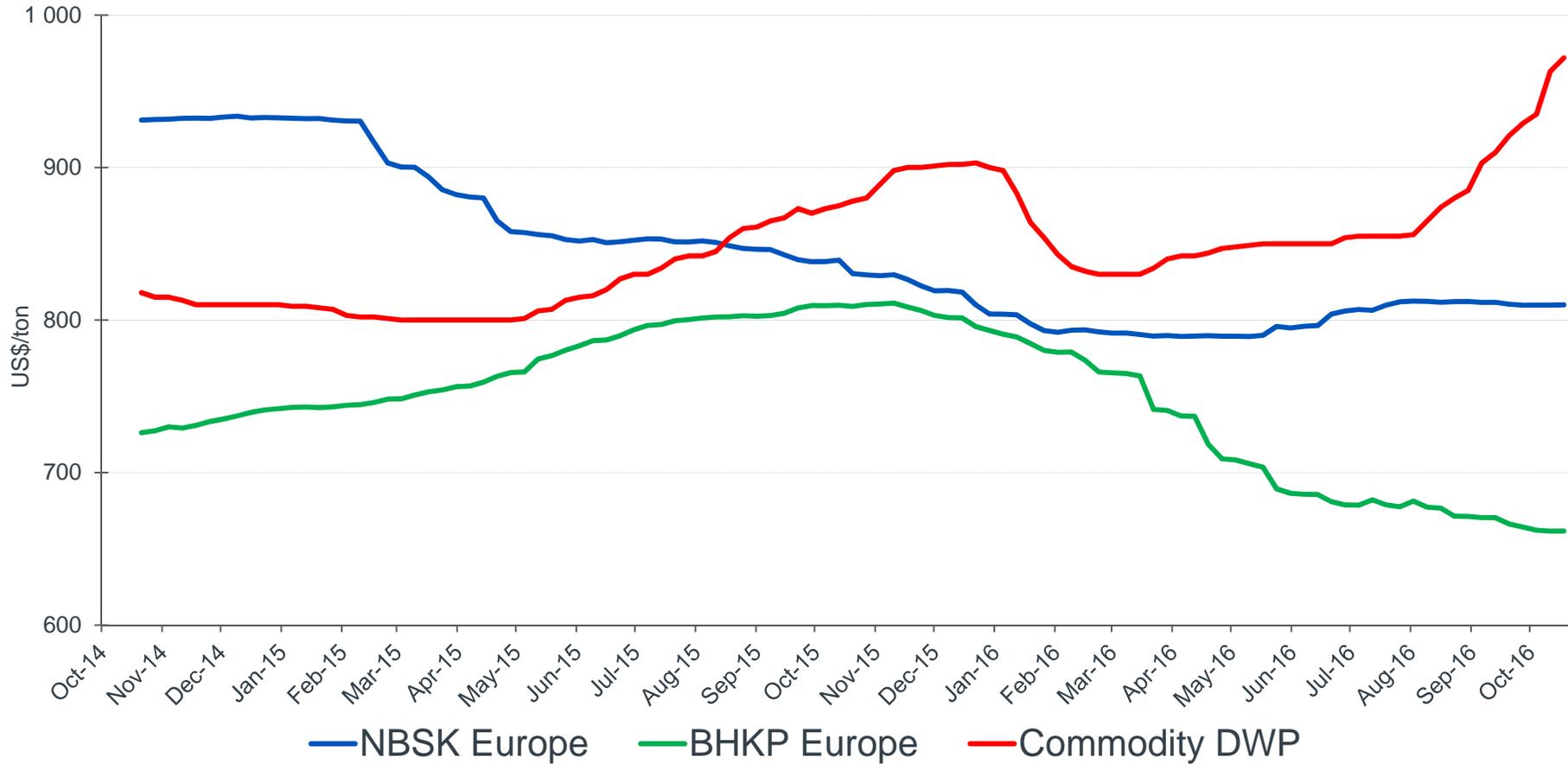


	Q3 FY16	Q3 FY15	YTD 16	YTD 15
Tons sold ('000)	363	357	1,329	1,305
Sales (US\$m)	360	369	1,367	1,377
Price/Ton (US\$)	992	1,034	1,029	1,055
Cost/Ton* (US\$)	923	947	992	1,034
<b>Operating profit excluding special items** (US\$m)</b>	<b>25</b>	<b>31</b>	<b>49</b>	<b>27</b>

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

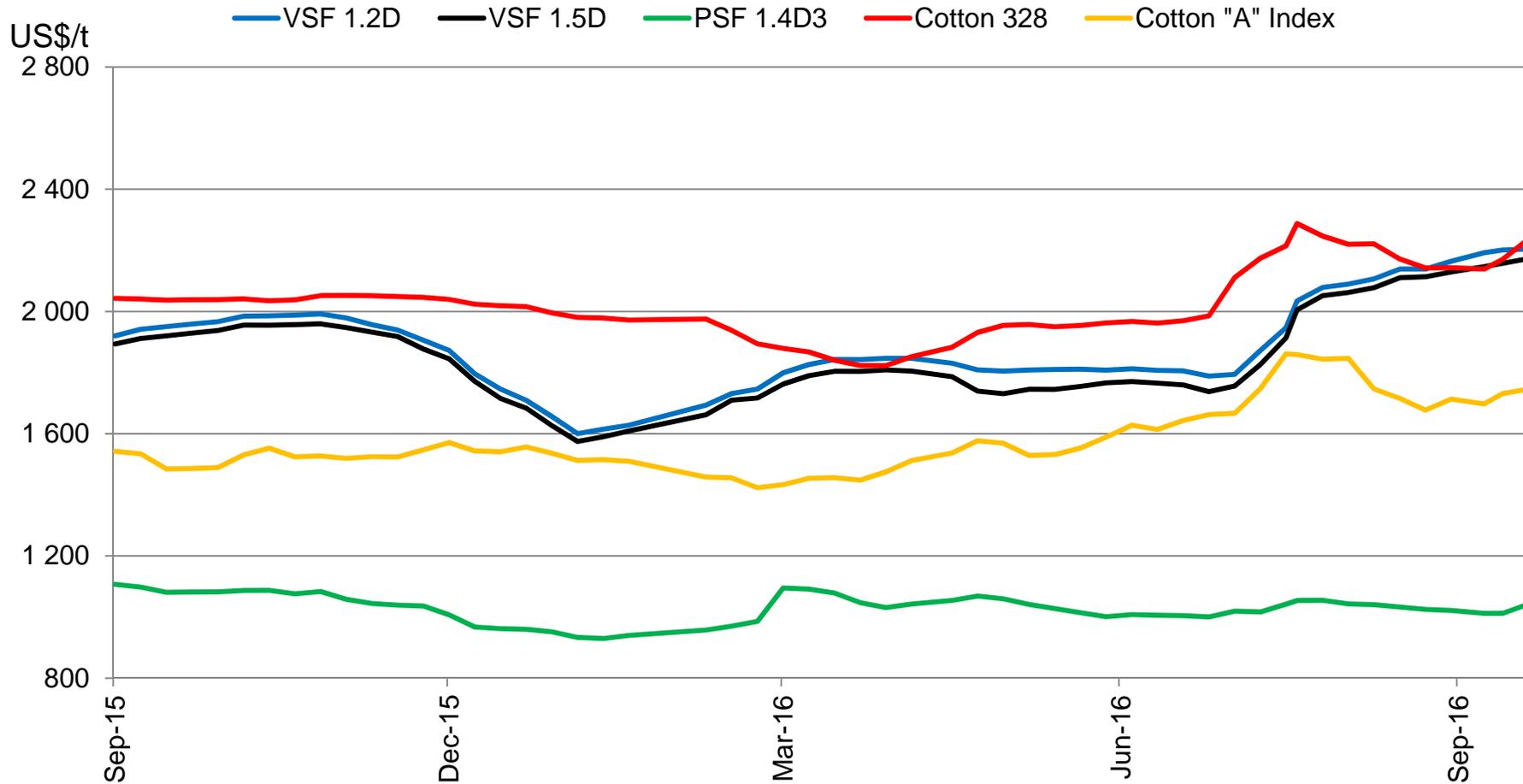
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# Pulp prices\*



• Source: FOEX, CCF group

# Textile Fibre Prices



# Sappi South Africa



Excluding Sappi Forests

	Q4 FY16	Q4 FY15	YTD 16	YTD 15
Tons sold ('000)	429	482	1,626	1,768
Sales (ZARm)	4,532	4,375	16,799	15,470
Price/Ton (ZAR)	10,564	9,077	10,332	8,750
Cost/Ton* (ZAR)	7,636	6,905	7,558	7,017
<b>Operating profit excluding special items** (ZARm)</b>	<b>1,256</b>	<b>1,047</b>	<b>4,510</b>	<b>3,063</b>



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

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# Cash flow



US\$m	Q4 FY16	Q4 FY15	F 2016	F 2015
<b>Cash generated from operations</b>	<b>191</b>	<b>181</b>	<b>693</b>	<b>544</b>
Movement in working capital	70	86	4	(11)
Net finance costs paid	(4)	(24)	(91)	(135)
Taxation paid	(2)	-	(56)	(16)
<b>Cash generated from operating activities</b>	<b>255</b>	<b>243</b>	<b>550</b>	<b>382</b>
<b>Cash utilised in investing activities</b>	<b>(87)</b>	<b>(84)</b>	<b>(191)</b>	<b>(237)</b>
Capital expenditure	(97)	(85)	(241)	(248)
Net proceeds on disposal of assets	5	1	44	1
Other movements	5	-	6	10
<b>Net cash generated (utilised)</b>	<b>168</b>	<b>159</b>	<b>359</b>	<b>145</b>

# EBITDA and Operating Profit



Excluding special items reconciliation to reported operating profit

US\$m	Q4 FY16	Q4 FY15	F 2016	F 2015
<b>EBITDA excluding special items*</b>	<b>209</b>	<b>201</b>	<b>739</b>	<b>625</b>
Depreciation and amortisation	(64)	(65)	(252)	(268)
<b>Operating profit excluding special items*</b>	<b>145</b>	<b>136</b>	<b>487</b>	<b>357</b>
<b>Special Items* - gains (losses)</b>	<b>25</b>	<b>(1)</b>	<b>57</b>	<b>54</b>
Plantation price fair value adjustment	24	22	64	41
Net restructuring provisions	-	(2)	(4)	(6)
Profit on disposal of asset held for sale and other assets	(1)	-	15	-
Asset Impairment	(2)	-	(2)	-
Employee benefit liability settlement	8	(1)	8	55
BEE charge	-	(1)	(1)	(2)
Fire, flood, storm and other events	(4)	(19)	(23)	(34)
<b>Segment operating profit</b>	<b>170</b>	<b>135</b>	<b>544</b>	<b>411</b>

# Thank you



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