

Q4 FY19 financial results

14 Nov 2019



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*
- *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 – FY 2019

Excluding special items*

EBITDA* \$687m

Profit for the period
US\$211 million

EPS* 44 US cents

- Graphic paper markets are weak – requiring 268,000t of downtime in the year
- Increased DWP sales post debottlenecking projects
- Packaging and speciality volumes increase 12% y-o-y as machines ramp-up
- Matane acquisition

* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 26 in our Q4 FY19 financial results booklet (available on www.sappi.com) for a definition of special items.

Highlights – Q4 2019

Excluding special items*

EBITDA* \$185m

**Strong cash generation
of US\$173m**

**Profit for the period
US\$50 million**

EPS* 10 US cents

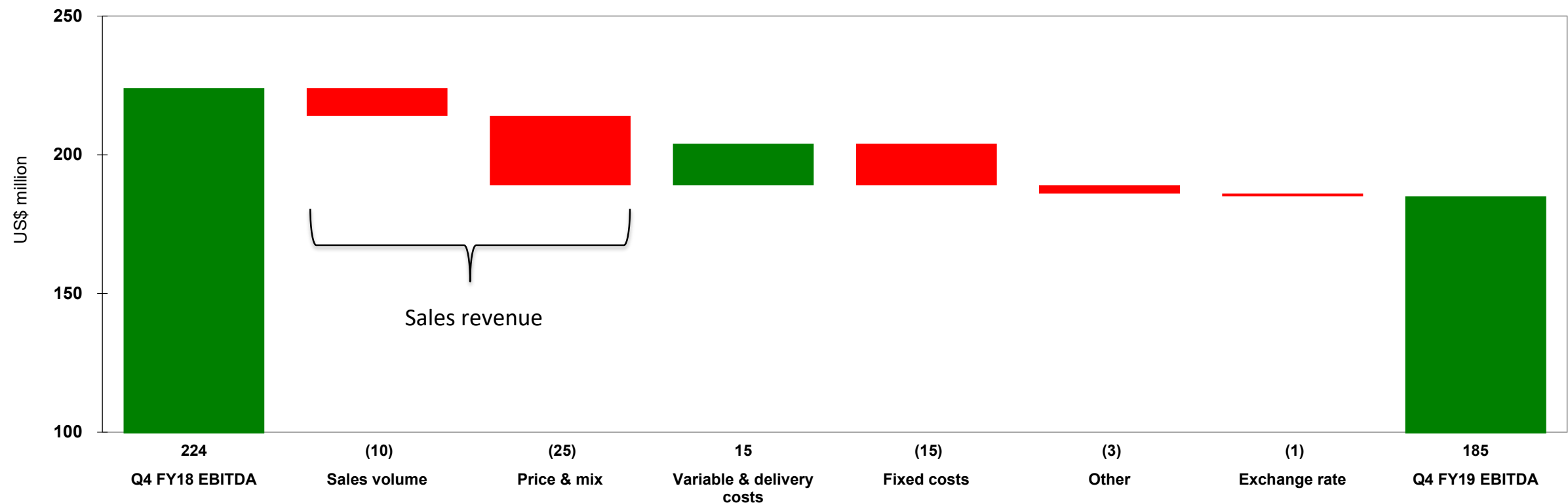
- Lower EBITDA in DWP and graphics business, offset somewhat by increased profitability from packaging and speciality
- Commercial downtime of ~94,000t graphic paper
 - ~ US\$25m EBITDA impact
- DWP pricing follows VSF lower – weak global textile markets

Key ratios	Q4 FY17	Q4 FY18	Q4 FY19
Net debt/LTM EBITDA	1.7	2.1	2.2
Interest cover	9.1	11.0	9.3
EBITDA %	15.7	14.6	12.7
ROCE %	20.2	17.0	12.1

* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 26 in our Q4 FY19 financial results booklet (available on www.sappi.com) for a definition of special items.

EBITDA* reconciliation

Q4 FY18 to Q4 FY19



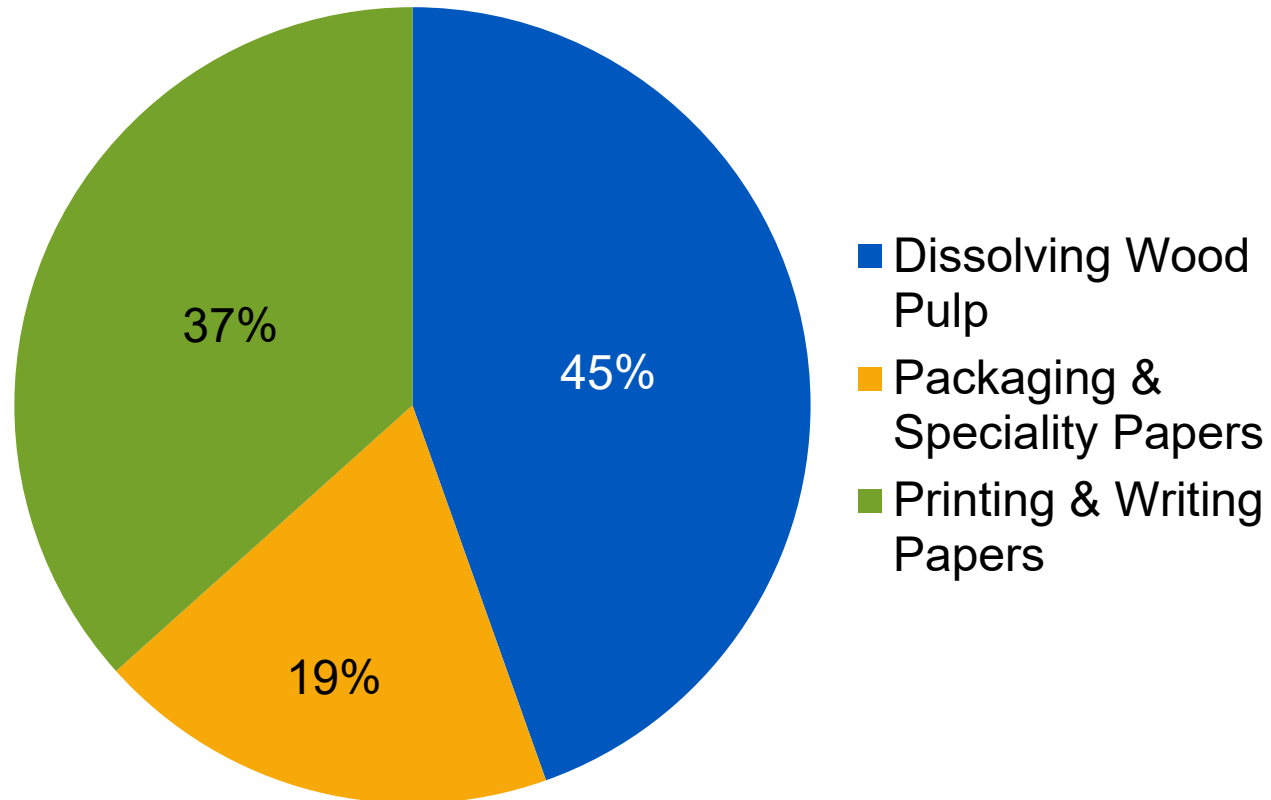
Notes:

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

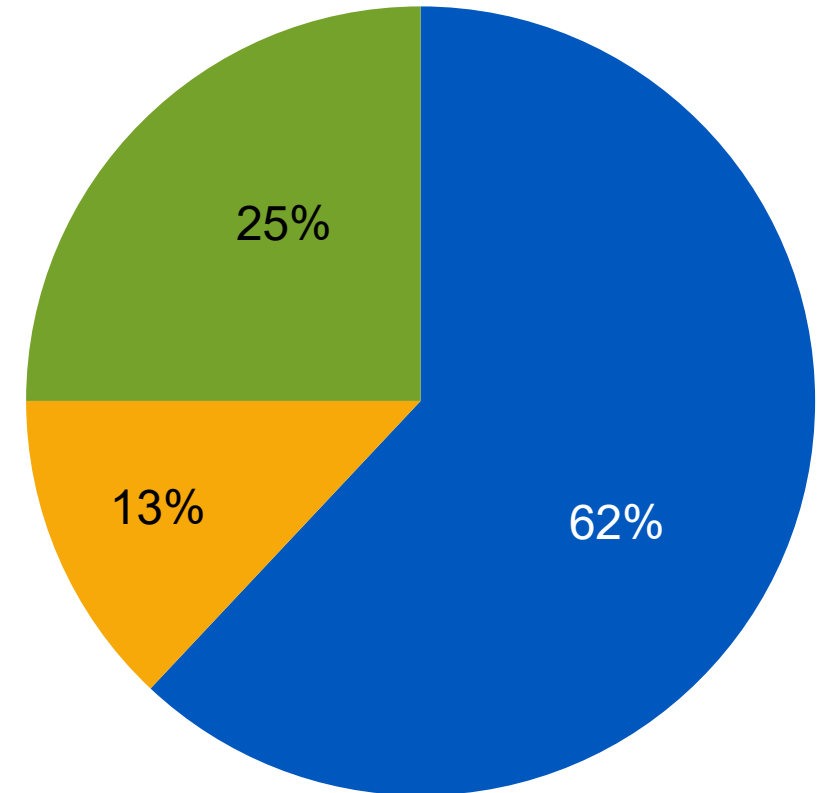
	Sept 2019	Sept 2018
Exchange rates:		
Average rate for the Quarter: US\$1 = ZAR	14.6831	14.0615
Average rate for the Quarter: €1 = US\$	1.1123	1.1626

Product contribution split – LTM

EBITDA excluding special items

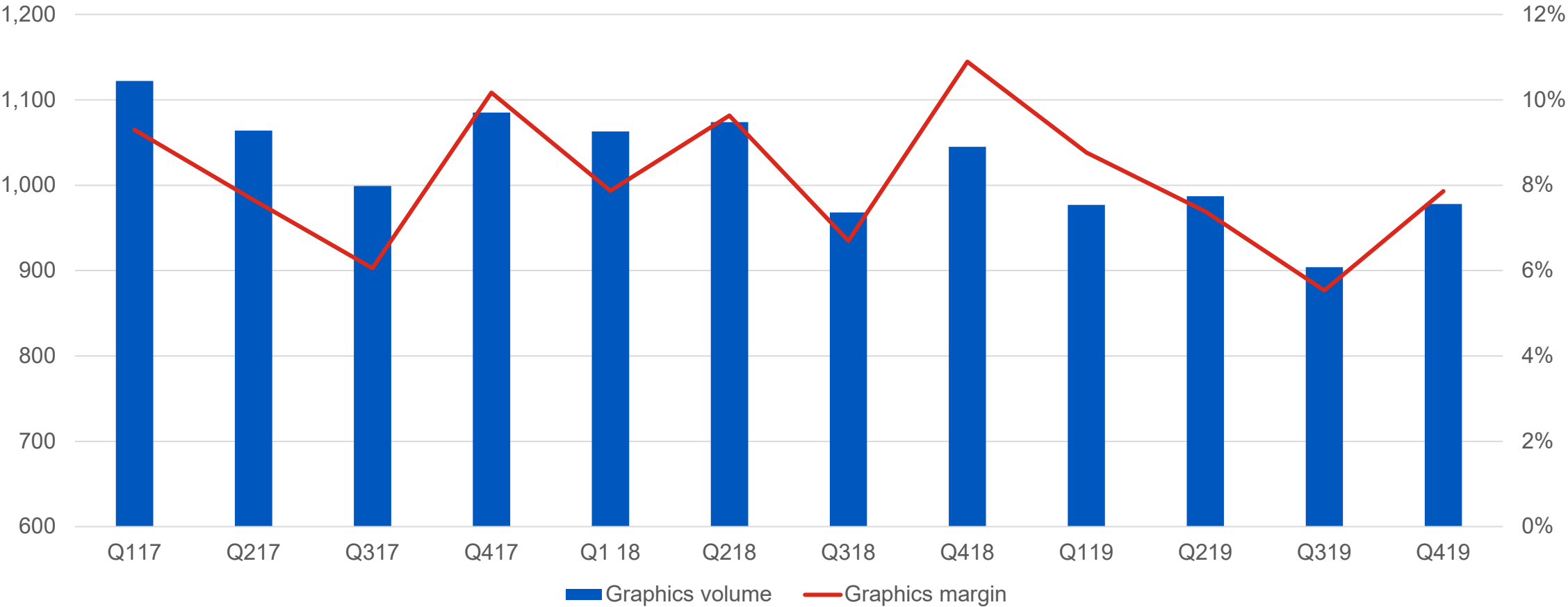


Operating profit excluding special items

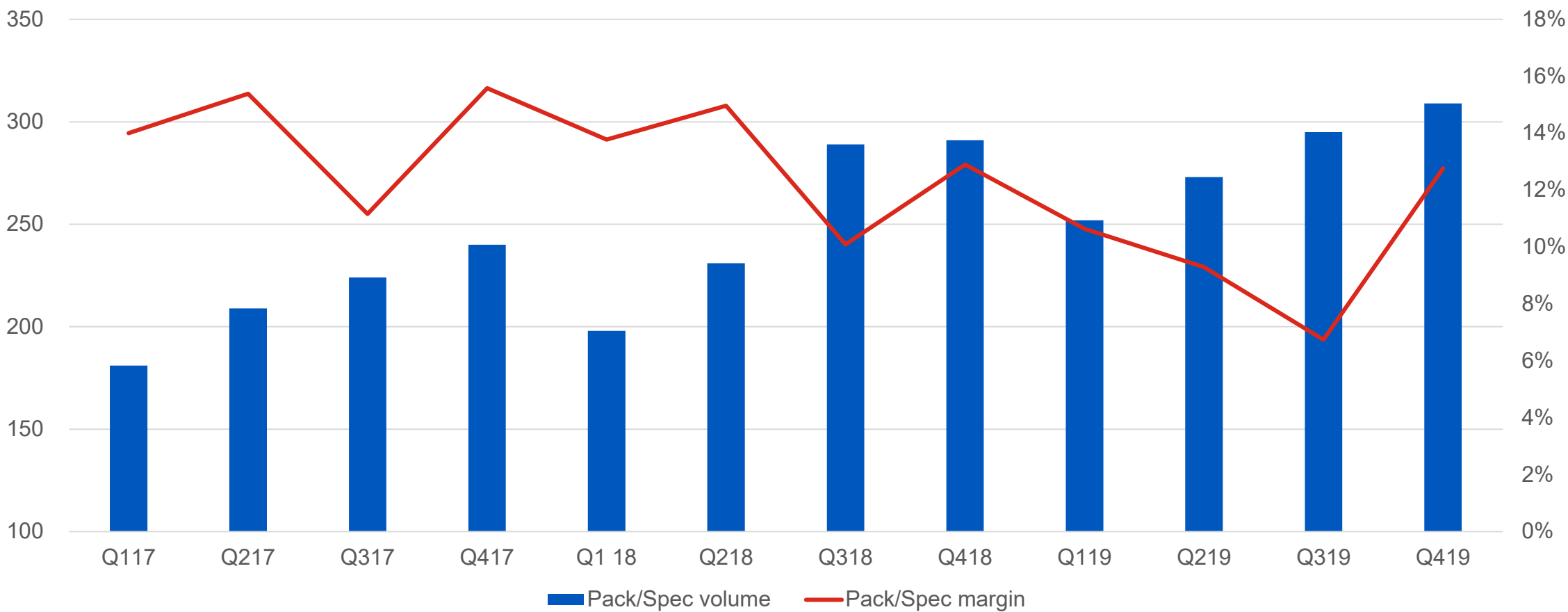


* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 26 in our Q4 FY19 financial results booklet (available on www.sappi.com) for a definition of special items. Data above excludes treasury operations and insurance captive.

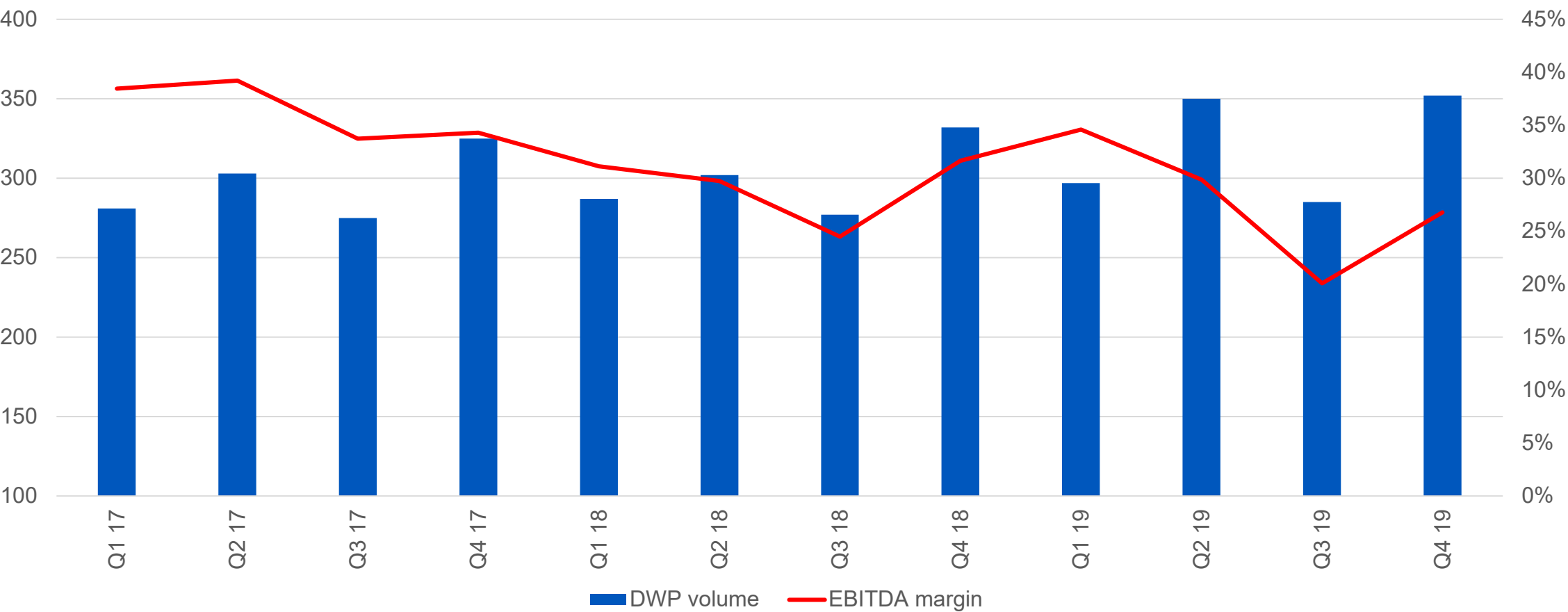
Graphics volume/EBITDA margin development



Pack/Spec volume/EBITDA margin development

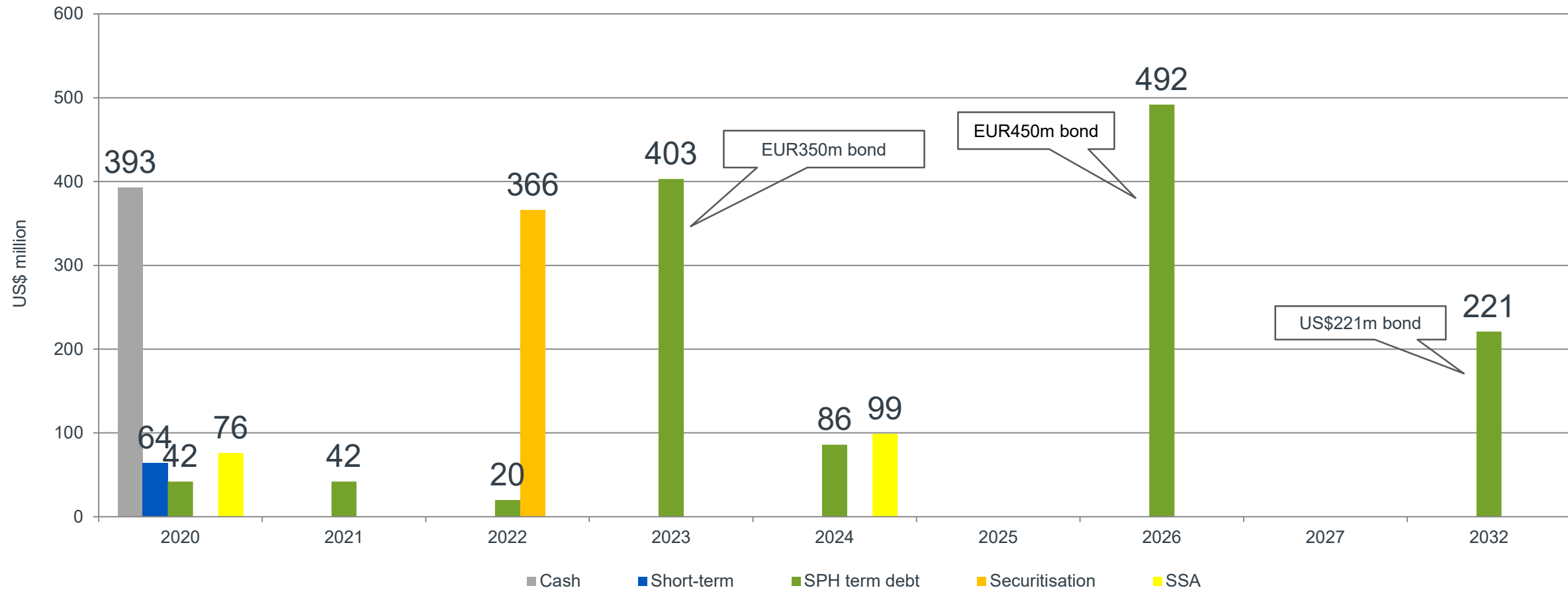


DWP volume/EBITDA margin development



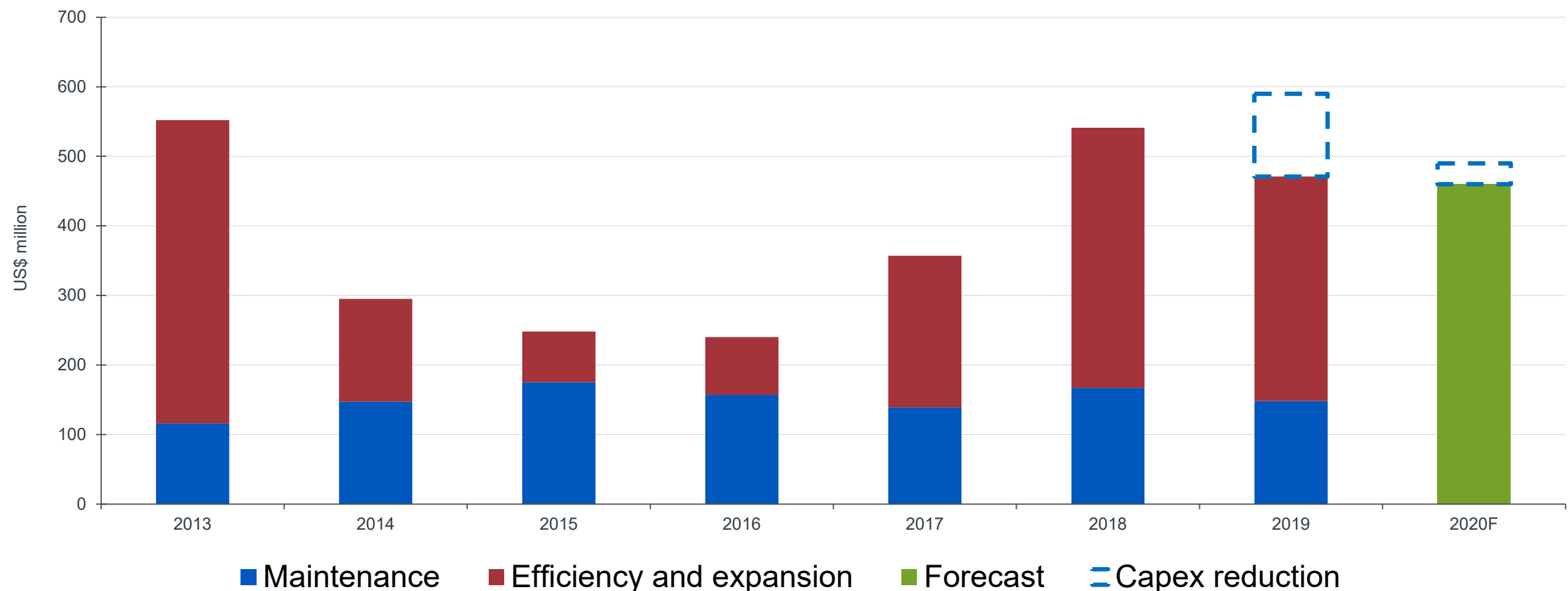
Maturity profile

Fiscal years



*After year-end the acquisition of the Matane mill was finalised.
The purchase price was funded with a new 8-year term loan.*

Capex development



US\$150m reduction over 2 years

Market and Segmental overview



Global graphic paper market trends

- Supply and demand
 - Demand remains very weak
 - Capacity reductions positively impacting operating rates over next 12 months
- Selling prices and input costs
 - Small declines in paper prices
 - Paper pulp prices declined due to high inventories and weak demand
- Strategy
 - Focus on costs to maintain margins
 - Manage operating rates through downtime, market share, flexibility of machines
 - Reduce or convert capacity as markets develop/change
 - Increase pulp integration over time

Global packaging and speciality paper market trends

- Supply and demand
 - Brand owners pushing for paper-based packaging solutions, demand remains firm
 - Containerboard conversions entering the market
- Selling prices and input costs
 - Stable selling prices; negotiations upcoming for 2020 pricing
 - Paper pulp prices declined due to high inventories and weak demand
- Strategy
 - Ramp-up volumes from conversions, grow into new markets
 - Innovation and sustainability key differentiators
 - Improve pulp integration – Matane acquisition

Sappi Europe

Sales Tons -7%
year-on-year

Sales -6%
year-on-year

EBITDA* -28%
year-on-year

- Profitability declined due to lower graphics sales volumes
- CWF volumes down 7%, industry was down 13%; CM volumes down 15% due to our Lanaken conversion
- Pricing for graphics and packaging and speciality higher y-o-y.
- Variable costs were 4% lower, led by purchased paper pulp; fixed costs were 5% higher due to additional maintenance
- 37,000t downtime – US\$12 million EBITDA impact

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Sappi North America

Sales Tons +7%
year-on-year

Sales +2%
year-on-year

EBITDA* -24%
year-on-year

- Packaging and speciality volumes up 36%, margins increasing
- Profitability down year-on-year due to downtime and lower DWP prices
- Graphics demand down 13%, 57kt downtime taken US\$13m EBITDA impact. Realised prices were flat y-o-y.
- Cloquet debottlenecking complete – DWP volumes rose, pricing ~ 10% lower y-o-y
- Variable and fixed costs were 4% and 7% lower respectively (last year included the extended shut of PM1)

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Global DWP market trends

- Supply and demand
 - Demand continues to be strong, growing by ~6% per annum
 - VSF remains oversupplied in a weak Chinese textile market
 - Swing producers on DWP as a result of weak paper pulp markets
- Selling prices and input costs
 - Both DWP and VSF prices historically low
 - Wood chip prices remain elevated despite weak pulp prices
- Strategy
 - Grow with the market, 110kt expansion at Saiccor 40% complete
 - Evaluate longer term opportunities for more substantial increase in volumes
 - Commitment to sustainability key – wood certification gives Sappi a competitive advantage

Sappi South Africa

Sales Tons +2%
year-on-year

Sales +7%
year-on-year

EBITDA* -4%
year-on-year

- Increased sales volumes and a weaker ZAR/USD exchange rate were insufficient to offset lower DWP prices and higher wood and energy costs
- Progress on the Saiccor expansion continues to plan, completion expected late 2020
- Packaging demand weakened late in the quarter as the broader SA economy slowed, citrus exports lower than expected
- Fixed cost rose ahead of inflation; variable costs were higher, led by energy and wood prices

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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.

Our group strategy

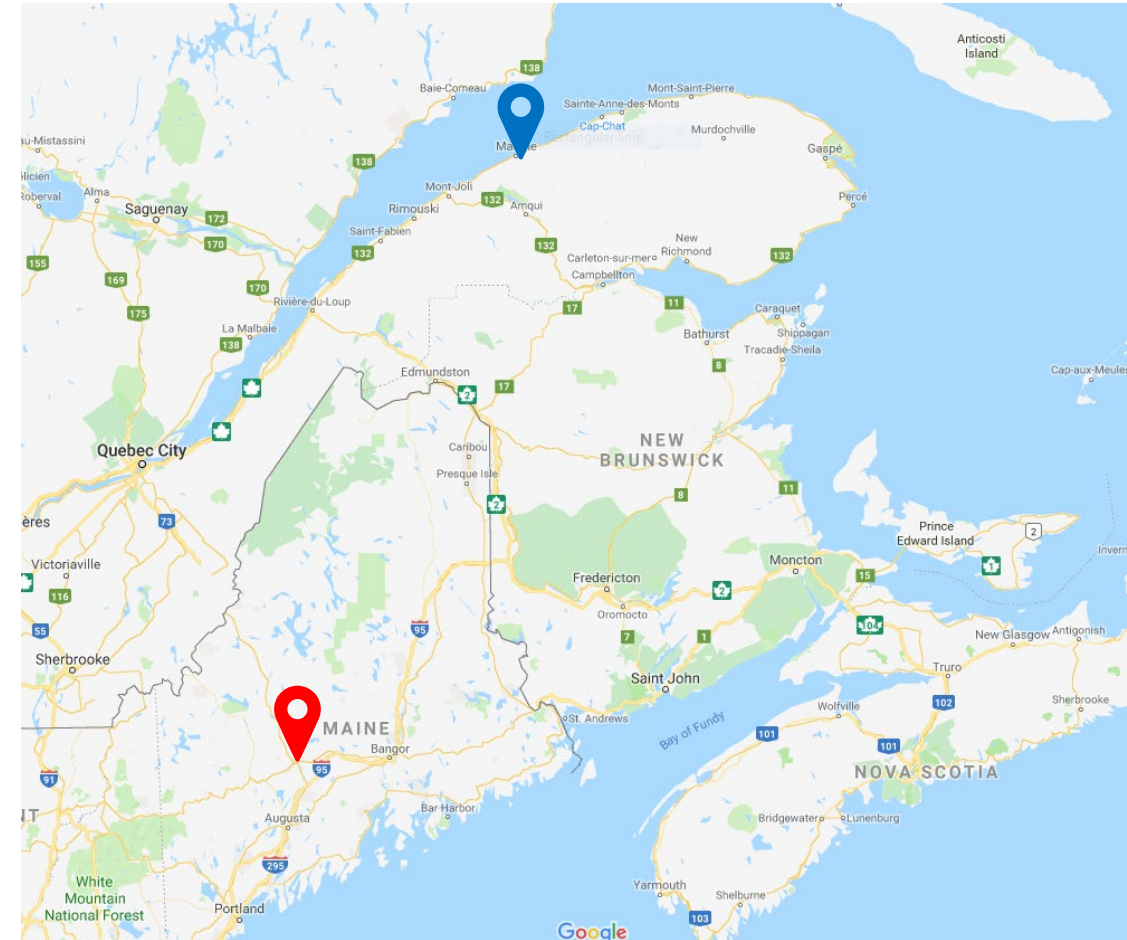


- We work to lower fixed and variable costs, increase cost efficiencies and invest for cost advantages.
 - Group efficiency and procurement initiatives US\$87m realised in 2019
 - Ongoing continuous improvement across all mills.
 - Investigate pulp integration opportunities in US and EU – Matane acquisition, small debottlenecking project in EU in 2020
 - Saiccor expansion will lead to lower variable costs

Matane Mill Acquisition



- Capacity of 270,000t per annum of aspen and maple high yield pulp
- Mill located in Matane, Quebec



Matane Mill

Somerset Mill

Matane Mill acquisition

- Supports strategy and 2020 vision through the achievement of cost advantages and growth in higher margin packaging and speciality paper.
- Increase the pulp integration by supplying high yield pulp to our US and European packaging operations, thereby enabling Sappi to:
 - Secure supply of a raw material critical to product quality
 - Reduce input pricing and volatility in profitability
 - Avoid higher capital cost of internal high yield pulp capacity – Estimated at \$210m for 200kt
- Cash purchase price of US\$158m represents 3.0X 2018 EBITDA of \$53M and 6.3X estimated Sustainable EBITDA of \$25M

Our group strategy



- Recognising the decreasing demand for graphic paper, we manage our capacity to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation.
 - Downtime taken at mills to lower inventories
 - Progressive transition of Lanaken Mill out of LWC
 - Reduced coated paper exposure via conversion
 - Evaluating graphic paper capacity

Our group strategy



- Maximum sustained leverage - 2x Net debt:EBITDA
- No new major capex commitments
- Reduced capex by US\$150m over two years
- Leverage covenant adjusted for next two years
- Tight working capital management
- 8-year term loan raised to fund Matane acquisition

Our group strategy



- We will make investments in existing and adjacent areas with strong potential growth.
 - Debottlenecking of Saiccor, Ngodwana and Cloquet DWP complete
 - Expansion of Saiccor by 110kt/annum 40% complete
 - Additional packaging at Ngodwana and Tugela Mills
 - Securing additional HW and SW timber supply
 - Biomaterials, bio-chemicals – lignins, sugars
 - Ramp-up of board grades at Maastricht and Somerset
 - Extend barrier coating opportunity

Outlook

- We expect markets will remain tough, and profitability to be negatively impacted
- DWP pricing remains under pressure, down over \$300/ton (>30%) from last year, demand growing
- We continue to make good progress with customer acceptance in our packaging and speciality segment, volumes will ramp-up in 2020
- Global graphic paper markets are weak, input costs providing some relief
- With low prices for DWP, and paper markets that have yet to recover, we expected EBITDA in our next quarter to be below that of the prior year.
- Temporary halt to dividends until market conditions improve

Thank you

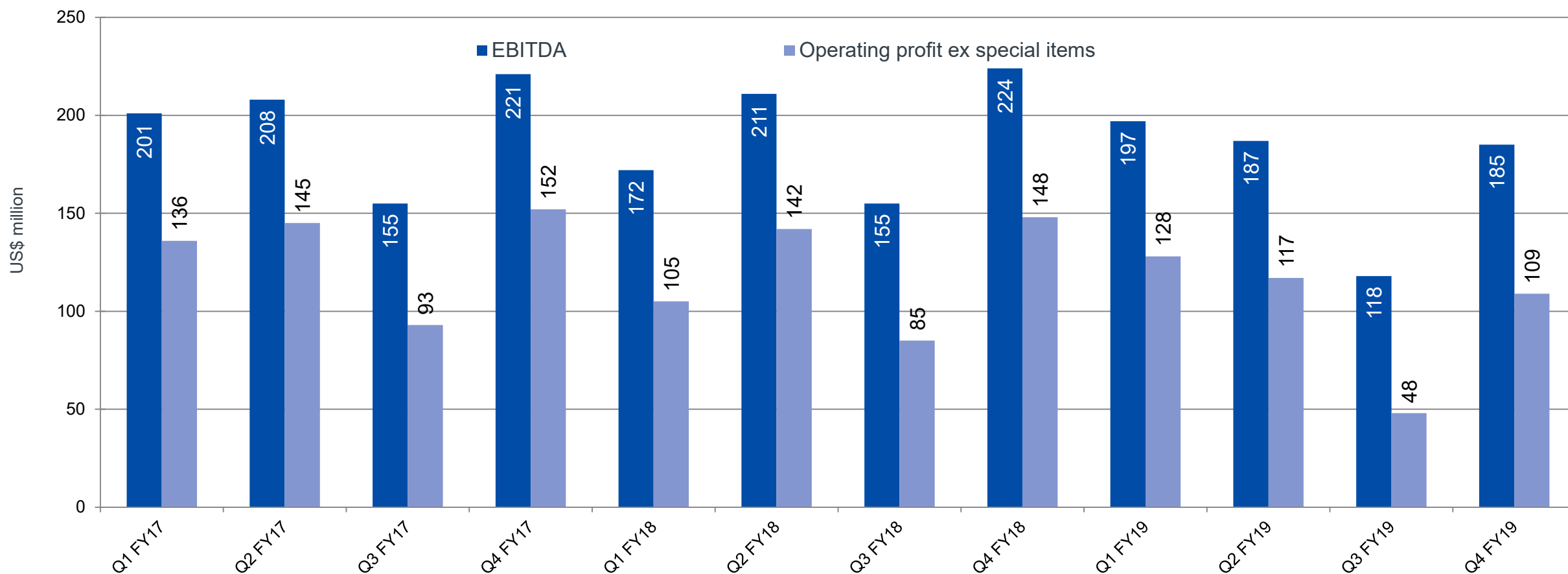


Supplementary information



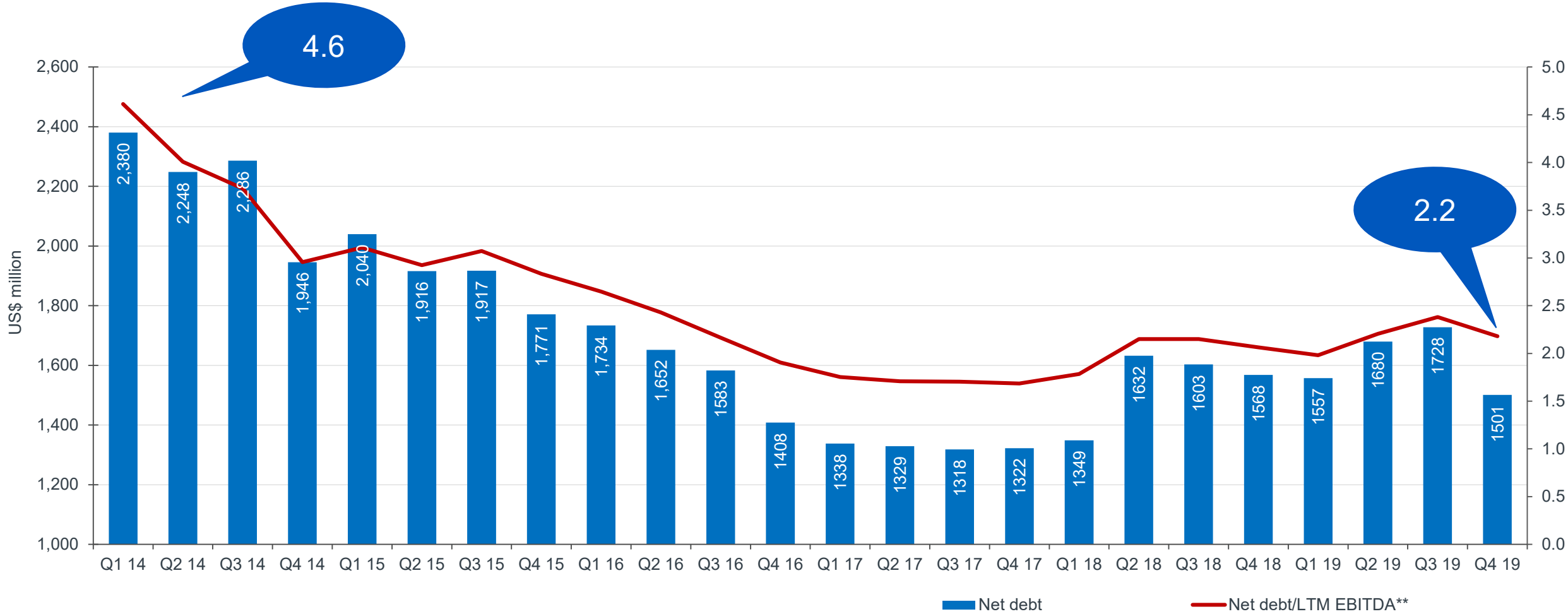
EBITDA and operating profit

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.

Sappi specialities and packaging papers

Global production sites with the ability to switch between graphics and packaging at various sites*



Stockstadt Mill* (Germany)
Flexible packaging
and functional papers

Carmignano Mill (Italy)
Flexible packaging
and functional papers



Condino Mill (Italy)
Flexible packaging
and functional packaging

Maastricht Mill* (The Netherlands)
Paperboard



Ehingen Mill* (Germany)
Containerboard

Cloquet Mill* (USA)
Label papers



Ngodwana Mill (South Africa)
Containerboard

Somerset Mill* (USA)
Label paper and flexible
packaging paper



Tugela Mill (South Africa)
Containerboard

Westbrook Mill (USA)
Release papers



Alfeld Mill (Germany)
Containerboard, flex-pack, label,
paperboard, silicone base papers

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.

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.

EU Packaging and Specialities



Packaging and Speciality papers expansion plans



- Europe
 - Maastricht: complete, ramp-up by 2021
 - -160k CWF, +150k specialities (FBB)
 - Ebingen: complete
 - -75k CWF, +60k specialities (WTL)
 - Alfeld: construction to start FY19, complete by Q4 FY20
 - +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)

Sappi Europe

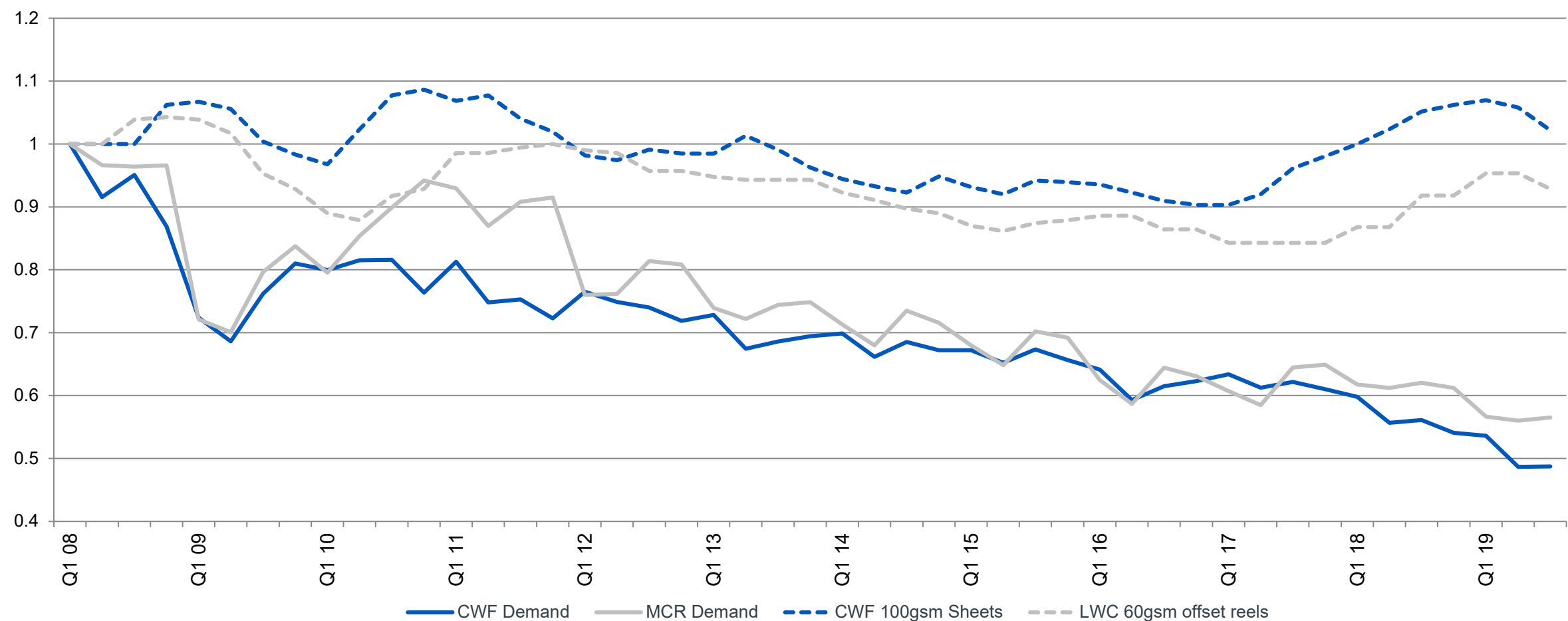
	Q4 FY19	Q4 FY18	FY 2019	FY 2018
Tons sold ('000)	801	864	3,241	3,366
Sales (EURm)	633	674	2,586	2,495
Price/Ton (EUR)	790	777	798	741
Cost/Ton* (EUR)	764	733	770	701
Operating profit excluding special items** (EURm)	21	38	92	137

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

** Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page XX in our Q4 FY19 financial results booklet (available on www.sappi.com) for a definition of special items.

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

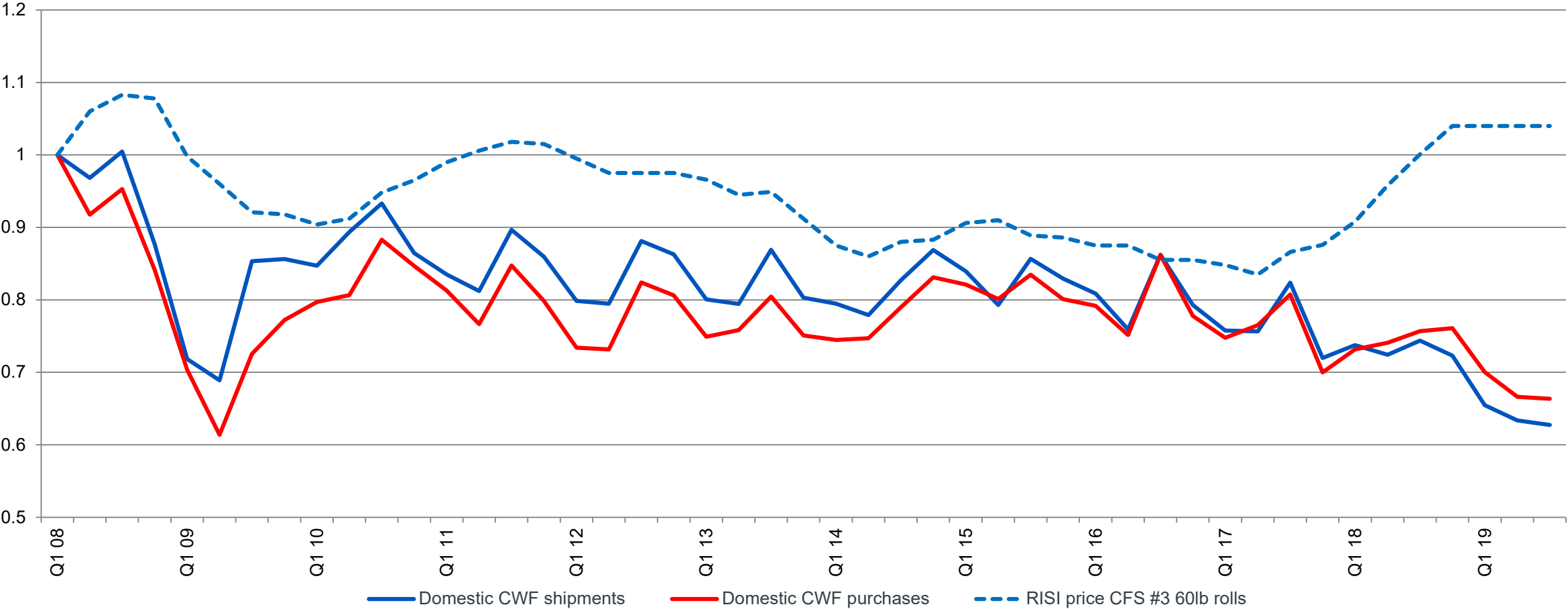
	Q4 FY19	Q4 FY18	FY 2019	FY 2018
Tons sold ('000)	388	363	1,379	1,371
Sales (USDm)	394	388	1,466	1,432
Price/Ton (USD)	1,015	1,069	1,063	1,044
Cost/Ton* (USD)	972	983	1,044	1,009
Operating profit excluding special items** (USDm)	17	31	27	49

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

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Coated paper prices and shipments

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.

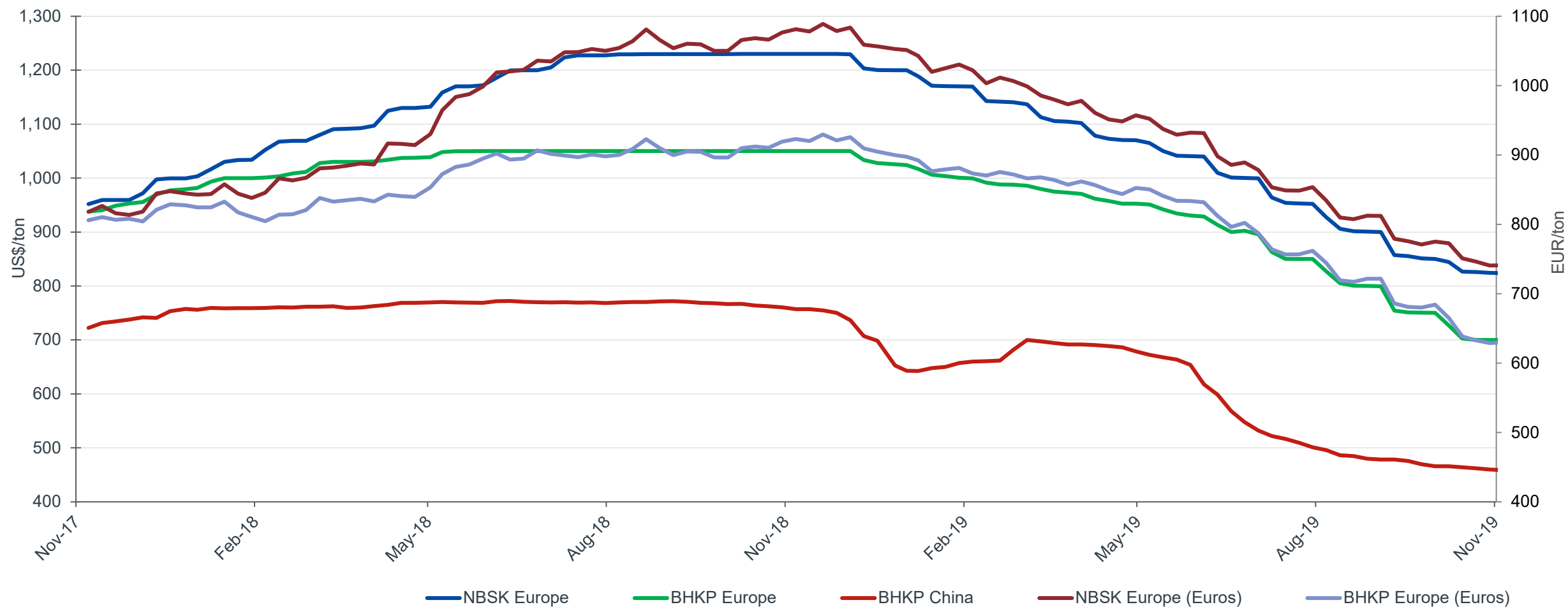
Sappi South Africa

	Q4 FY19	Q4 FY18	FY 2019	FY 2018
Tons sold ('000)	450	441	1,639	1,620
Sales (ZARm)	5,145	4,824	19,253	17,333
Price/Ton (ZAR)	11,433	10,939	11,747	10,699
Cost/Ton* (ZAR)	9,216	8,488	9,410	8,524
Operating profit excluding special items** (ZARm)	998	1,081	3,831	3,524

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

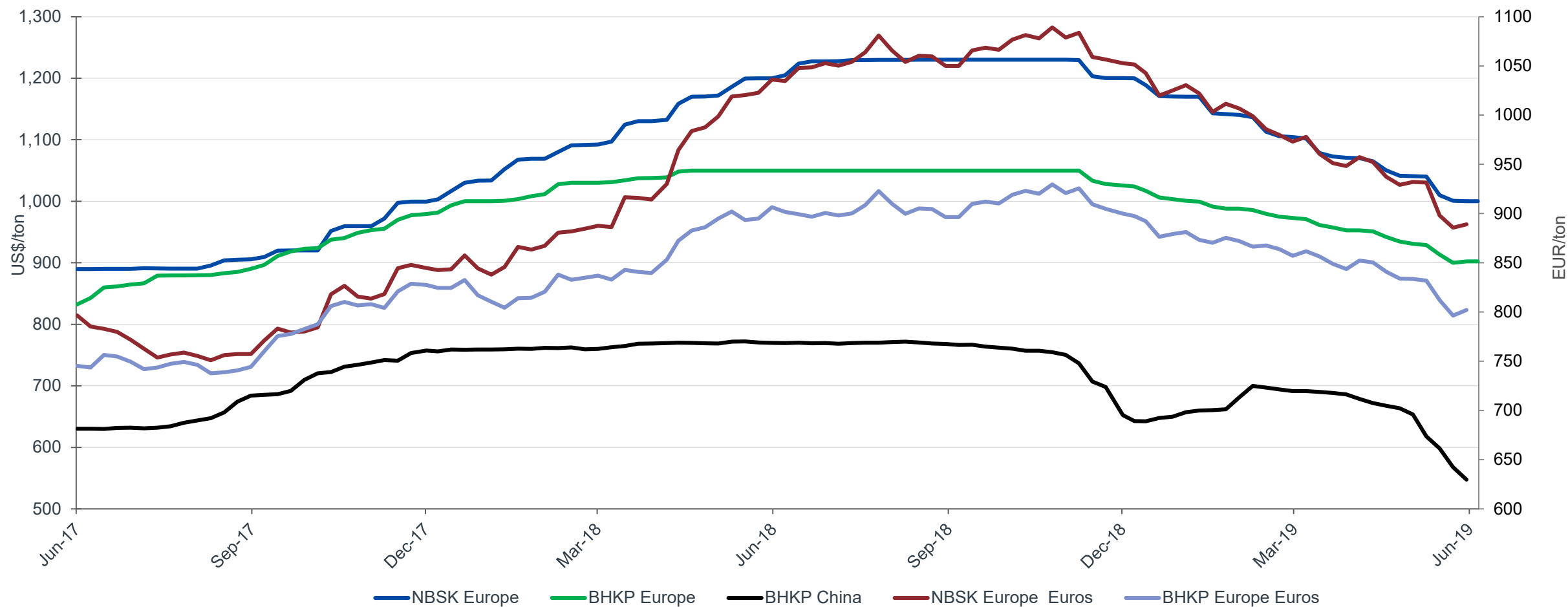
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Paper pulp prices*



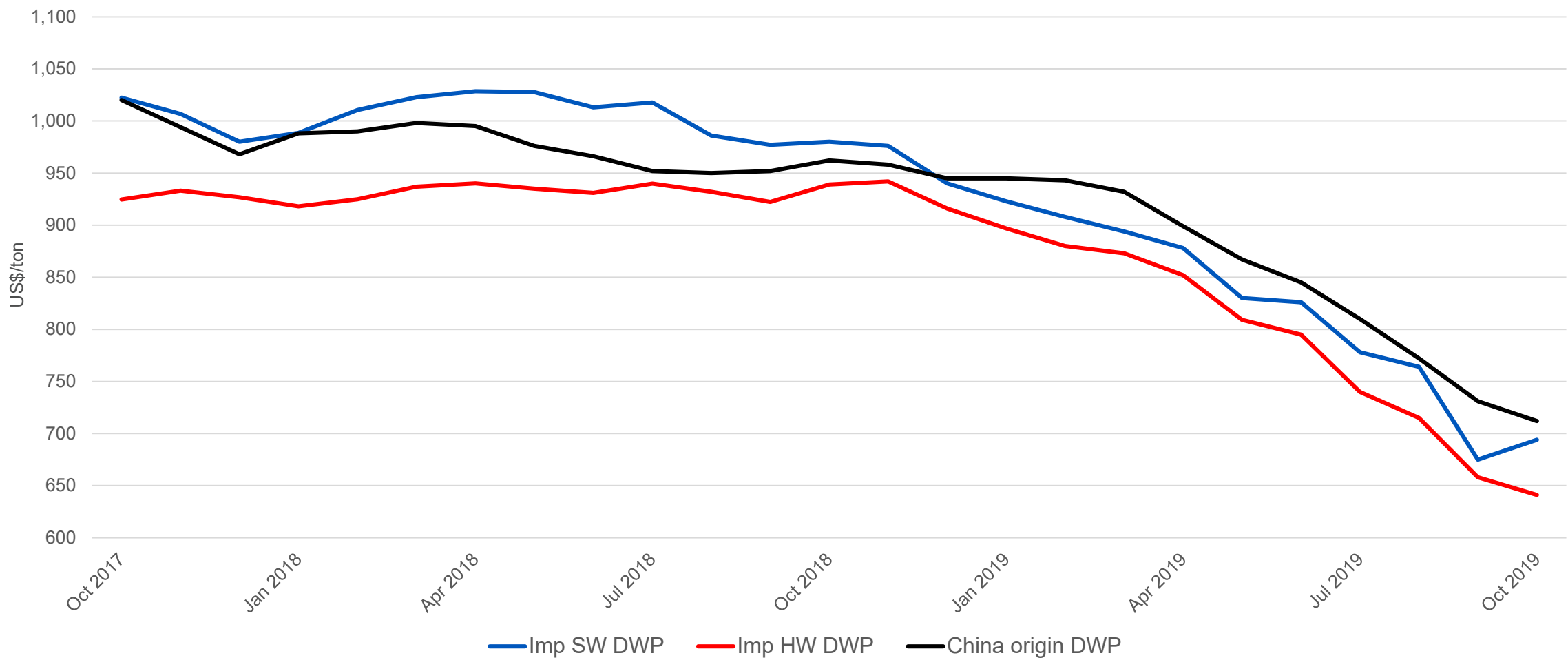
* Source: FOEX, CCF group.

Paper pulp prices*



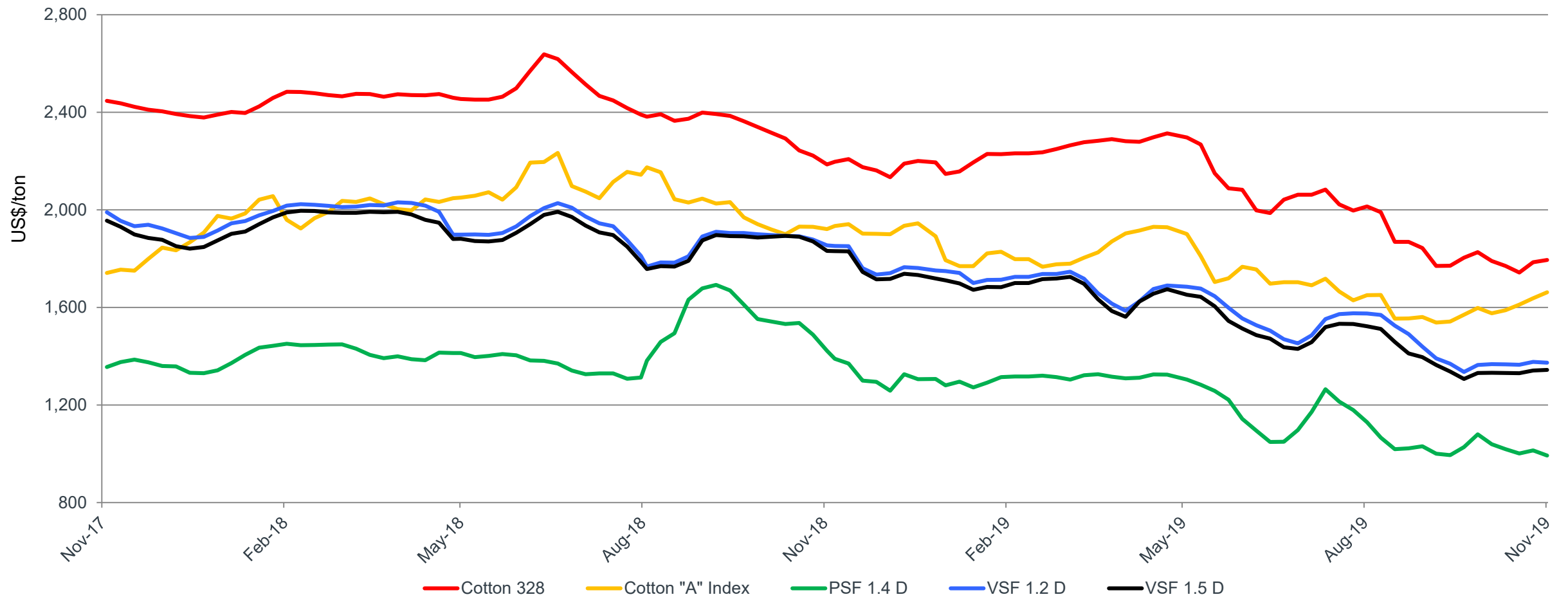
* Source: FOEX

Dissolving pulp prices*



* Source: CCF group

Textile fibre prices*



* Source: CCF group

Cash flow

US\$m	Q4 FY19	Q4 FY18	FY 2019	FY 2018
Cash generated from operations	176	212	673	709
Movement in working capital	132	6	(15)	(79)
Net finance costs paid	(5)	(28)	(51)	(84)
Finance income received	3	4	9	18
Taxation (paid) refund	-	(23)	(51)	(73)
Dividend paid	-	-	(92)	(81)
Cash generated from operating activities	306	171	473	410
Cash utilised in investing activities	(133)	(145)	(472)	(664)
Capital expenditure	(135)	(146)	(471)	(541)
Proceeds on disposal of assets	1	-	3	11
Acquisition of subsidiary	-	-	-	(132)
Other non-current asset movements	1	1	(4)	(2)
Net cash generated (utilised)	173	26	1	(254)

EBITDA and operating profit

Excluding special items* reconciliation to reported operating profit

US\$m	Q4 FY19	Q4 FY18	FY 2019	FY 2018
EBITDA excluding special items*	185	224	687	762
Depreciation and amortisation	(76)	(76)	(285)	(282)
Operating profit excluding special items*	109	148	402	480
Special items* - gains (losses)	(12)	(13)	(19)	9
Plantation price fair value adjustment	5	(3)	19	27
Acquisition cost	(2)	-	(2)	(2)
Net restructuring provisions	-	(3)	-	1
Profit on disposal and written off assets	(7)	(4)	(11)	4
Asset impairments	(7)	-	(18)	-
Asset impairment reversals	-	-	8	3
Black Economic Empowerment charge	-	-	-	(1)
Fire, flood, storm and other events	(1)	(3)	(15)	(21)
Segment operating profit	97	135	383	489

* Refer to page 26 in our Q4 FY19 results booklet (available on www.sappi.com) for a definition of special items.

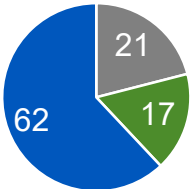
Cellulosic fibre properties helping drive that growth

✓✓ Key strength ✓ Qualifies ✗ Issue
■ Nonwovens/Technical textiles ■ Home textiles ■ Apparel

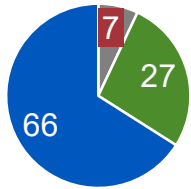
Fibre properties and applications

Applications

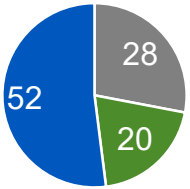
Cellulosic fibres



Cotton



Polyester



Function and feel

Durability

✗

✓

✓✓

Absorbency

✓

✓

✗

Breathability

✓

✓

✗

Softness

✓

✓

✓

Drape

✓

✗

✗

Appearance

Dyeability

✓✓

✓

✓✓

Brightness/Lustre

✓✓

✓

✓

Sustainability

Renewable and biodegradeable

✓✓

✓✓

✗

Resource efficiency

✓✓

✗

✗

Overall value proposition

- Natural and attractive, 'greener' alternative to cotton

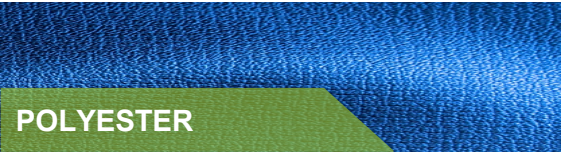
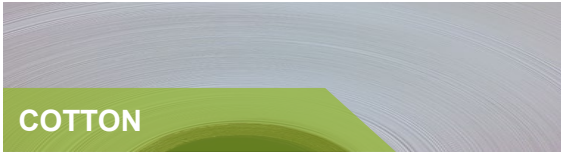

- Natural, functional and well established

- Cheap, durable and versatile

- On a pure property basis, cellulosic fibres are superior to cotton and differentiated on sustainability.
- Polyester is differentiated on strength/durability versus cotton and cellulosic fibres.

Source: IHS Global, RISI, Hawkins Wright.

There is still significant headroom to increase the level of cellulosic fibre blending in most sub-categories

	 POLYESTER			 COTTON			 CELLULOSIC		
	Today	Future	Gap	Today	Future	Gap	Today	Future	Gap
Apparel									
Denim	5%	5%	0	95%	95%	0%	0%	0%	0%
Shirts	35%	40%	+14%	50%	40%	-20%	15%	20%	+33%
T-shirts	30%	50%	+67%	70%	50%	-29%	3%	5%	0%
Dresses	10%	10%	0%	35%	25%	-29%	55%	65%	+18%
Suits	35%	40%	+14%	25%	20%	-20%	~1%	~2%	+100%
Sportswear	85%	85%	0%	0%	0%	0%	15%	15%	0%
Casual wear	45%	50%	+11%	45%	35%	-22%	10%	15%	+50%
Home textile									
Towels	5%	5%	0%	80%	75%	-6%	15%	20%	+33%
Bedding	45%	55%	+22%	45%	40%	-11%	1%	2%	+100%

Source: Expert interviews.

Thank you

