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Media release

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Sappi announces results for the second financial quarter of 2023

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: *"Following the record profitability achieved last year, the group faced a severe downstream inventory destocking cycle. This led to production curtailment in both the European and North American regions to match the sluggish market demand and to prevent excess inventory accumulation. Profitability was negatively affected by reduced sales volumes, cost inflation and operational inefficiencies associated with the commercial downtime. However, paper selling prices remained relatively stable through the quarter and were significantly above the levels in the prior year. Dissolving pulp (DP) market conditions improved during the quarter.*

Sappi delivered an EBITDA excluding special items of US$167 million against a backdrop of a challenging global economy and significantly weaker paper and pulp markets. Our long-term net debt target of approximately US$1 billion remains a strategic imperative and we continued to progress towards this goal. Net debt decreased by US$568 million compared to the prior year and ended the quarter at US$1,225 million. Net debt/EBITDA improved materially to 1.0 from 2.0 in the prior year."

Looking forward, Binnie stated: *"Sappi is well positioned to withstand the current market pressures given our significantly reduced debt profile and healthy cash reserves. We remain committed to our strategy to reduce exposure to graphic paper markets while investing for growth in renewable packaging, dissolving pulp and biomaterials."*

Financial summary for the quarter

- EBITDA excluding special items **US$167 million** (Q2 FY22 US$337 million)
- Net debt of **US$1,225 million** (Q2 FY22 US$1,793 million)
- Profit for the period **US$69 million** (Q2 FY22 US$188 million)
- EPS excluding special items **11 US Cents** (Q2 FY22 35 US Cents)

Viscose staple fibre (VSF) operating rates in China improved through the quarter with renewed economic activity following the Lunar New Year celebrations in January 2023 and the opening of the economy following the relaxation of COVID pandemic restrictions. Downstream inventories in the textile value chain dropped from the peaks of last year and clothing retail sales were better than expected. The hardwood DP market price responded positively to the improved sentiment and increased to US$920/ton from a low of US$883/ton in January.

The packaging and speciality papers business faced significant headwinds from elevated downstream inventories. In South Africa, production difficulties at the Ngodwana Mill following heavy rains and challenges associated with the recent upgrade of the containerboard machine further impacted supply. Graphic paper markets were weaker, with demand across all product categories lower due to the ongoing industry-wide destocking cycle and negative consumer sentiment related to a slowing global economy. As a result of these difficult conditions, sales volumes for packaging and speciality papers and graphic papers were 29% and 42% below the prior year, respectively.

In both North America and Europe profitability was negatively impacted by weak paper markets. Higher year-on-year average selling prices were insufficient to offset substantially lower sales volumes. Operations were curtailed to match market demand and proactively manage working capital. The extensive downtime resulted in operational inefficiencies and increased variable costs resulting in reduced margins.

While the intended sale of three European graphic paper mills did not conclude, reducing exposure to graphic paper markets remains a strategic imperative and Sappi will explore all options for these assets. Collectively these graphic paper mills contribute positively to EBITDA.

In North America the Somerset Mill PM2 graphic paper to paperboard conversion and expansion project started.

Profitability of the South African business improved marginally year-on-year despite significant cost inflation and slightly reduced sales volumes. For dissolving pulp (DP) a bonded warehouse was established in China and the first shipment made during March. Approximately 17% of the Ngodwana Mill quarterly pulp sales volumes were shipped via Maputo Port, which remains a strategic logistics risk mitigation for shipments from South Africa.

Operational challenges associated with the upgrade of the Ngodwana Mill containerboard line and severe rainfall events constrained packaging sales volumes. Ongoing poor rail service levels necessitated increased road transport to ensure reliable timber and raw material deliveries to the mills. Containerboard demand softened slightly during the quarter due to a weaker than anticipated table grape season and a slow start to the apple season. Sales price increases only partially offset cost inflation resulting in a contraction of margins for the segment.

Outlook

VSF and DP markets are recovering and demand from our major customers is healthy. The short-term DP supply/demand landscape is expected to remain relatively balanced. However, the DP market price remains range bound at current levels by stagnant textile fibre pricing, which would need to increase to support further DP pricing gains. A planned maintenance shut at Saiccor Mill as well as lower contract pricing for certain customers will impact margins and profitability for the pulp segment in the third quarter.

High levels of downstream inventory are obscuring our short-term visibility of underlying paper demand and market conditions are anticipated to remain weak until the destocking cycle is complete. Global logistics challenges are mostly resolved and destocking may take longer than expected if customers delay replenishing their supply chains and drive down inventories below historical levels in anticipation of pricing adjustments.

We will continue to diligently manage working capital through production curtailments and adapt our product and market mix to match demand. Some relief may be expected from lower input costs as many variable cost categories have passed their pricing peak and we anticipate input cost benefits to be realised in the coming quarters.

Capital expenditure is estimated to be US$410 million for FY23 and includes US$70 million for the Somerset Mill PM2 conversion and expansion project.

The third quarter is seasonally the weakest in terms of demand for our products. Given that global macroeconomic uncertainties continue to weigh on consumer sentiment and paper markets have yet to show signs of a sustained recovery in demand, we anticipate that EBITDA for the third quarter of FY23 will be below that of the second quarter.

ENDS

The full results announcement is available at www.sappi.com
There will be a conference call to which investors are invited. Full details are available at www.sappi.com using the links Investors; Latest financial results

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 cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);*
- *the COVID-19 pandemic;*
- *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.