

# Sappi announces financial results for 2nd quarter, responds to impact from Covid-19

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Sappi has announced its financial results for the second quarter along with its response to the impact of the Covid-19 pandemic and its outlook for the rest of the year.



## **Covid-19**

Commenting on the impact of Covid-19, Sappi chief executive officer Steve Binnie said: “The impact of Covid-19 on people, business and society has been severe. Sappi’s approach to the outbreak of Covid-19 is guided by our values and purpose. Our priority remains the safety of our people across all of the territories where they are present. This ensures that our operations continue in a safe and uninterrupted manner. We remain in close contact with our customers and suppliers as we try to minimise any negative impacts within government constraints, helping local economies to mitigate the negative economic consequences of the various measures imposed. We also assist with efforts to help mitigate the impact of the virus on local communities. I am proud of the Sappi team around the world who are living our values, being innovative and taking initiative to help our stakeholders. We understand that overcoming the impact of Covid-19 and returning to normal business operations will require significant time and effort, for which we are preparing.”

Turning to the impact of Covid-19 on the second quarter, he continued: “Covid-19 had a relatively small impact on profitability during the quarter. However, an anticipated improvement in dissolving pulp (DP) prices did not materialise, principally as a result of the outbreak of Covid-19 in China. The subsequent actions taken by various governments only directly impacted our operations during the last few weeks of the quarter, and there was minimal disruption to production, although the Condino Mill in Italy was temporarily shut. We began to receive significant cancellations of DP and graphic paper orders scheduled to be delivered in the third quarter, and new orders for both product categories slowed considerably.”

## **Q2 financial results**

Commenting on the quarter’s results, Binnie said: “I am very pleased with the strong packaging and specialties performance which saw an EBITDA contribution almost double. I am also pleased with the solid results in the graphics paper segment, as well as the significant increase in market share across both segments. Despite these strong performances, the results were negatively impacted due to the historic low dissolving pulp (DP) prices, and reduced DP sales volumes.”

## Financial summary for the quarter:

- EBITDA excluding special items \$131m (Q2 FY19 \$187m)
- Profit for the period \$2m (Q2 FY19 \$72m)
- EPS excluding special items 4 US cents (Q2 FY19 13 US cents)
- Net debt \$1,879m (Q2 FY19 \$1,680m)

DP market prices fell \$233/tonne in the last 12 months as the combined impact of soft global textile markets, US duties on textiles from China, excess viscose staple fibre (VSF) capacity and a weaker \$/Renminbi exchange rate drove the DP price downwards. On the supply side, low paper pulp prices provided limited relief for swing producers. This significantly impacted both the segment and group profitability levels.”

Our strategy to diversify the product portfolio into higher-margin segments and position the company for future growth continues to bear fruit. The packaging and specialties segment continued to grow profitability despite slow containerboard demand in South Africa. Improved product mix and machine efficiencies combined with lower input costs and increased sales volumes in Europe and North America contributed positively. The ramp-up of Somerset Mill PM1 and Maastricht Mill on paperboard grades further assisted us to significantly reduce commercial downtime compared to the prior year.

Strong customer relationships and service levels, along with a focus on efficiencies and costs enabled us to make significant market share gains in our graphics paper business and, as a result, helped maintain profitability in this segment, despite weak market conditions.

Sales volumes for packaging and specialties in Europe increased by 5% on the prior year, with food and hygiene-related packaging experiencing especially strong demand. In North America, sales volumes for packaging and specialties grew 68% year-on-year and 49% versus the prior quarter, driven mainly by the ramp-up of the paperboard grades on PM1 at Somerset Mill as well as strong growth in label paper volumes. In South Africa, the containerboard sales volumes recovered from the first quarter, but still 4% below the prior year. A recovery in demand is expected later in the season. The market share gains in the coated woodfree paper in both North America and Europe countered the ongoing deterioration in graphic paper demand, enabling us to take fewer production curtailments than in recent quarters. Declining input costs helped maintain healthy margins.

## **Outlook**

As we indicated in the Covid-19 update issued on 30 March 2020, we will not be providing a profit forecast or guidance as the potential impact of the virus cannot be estimated reliably. We continue to apply all health and safety precautions to ensure that our people are safe and our operations are able to continue in a safe and uninterrupted manner, including in South Africa, where our operations have been declared an essential service. We do, however, expect significantly lower demand for DP and graphic paper in the short term. The group's focus is to preserve liquidity and cash flow and we have implemented various cost-saving measures across our operations, curtailed excess production and where possible deferred non-essential capital expenditure and applied measures to optimise working capital.

Current liquidity headroom in the group is strong, with cash deposits at the end of the quarter of \$268m and two undrawn revolving credit facilities of approximately \$642m. In light of the uncertainty regarding future trading conditions and to ensure we have adequate liquidity for the duration of this difficult period, we negotiated the suspension of our credit facility financial covenants as announced to the market.

The various lockdown regulations and actions are taken in different countries across the globe have severely impacted clothing retailers and many have been forced to shut stores for an extended duration. In conjunction with reduced consumer confidence and spending as a result of the pandemic, this has led to reduced textile demand throughout the supply chain and ultimately resulted in our major DP customers notifying us of their intention to reduce orders in the third quarter. In April, our sales volumes were approximately 35% lower than planned. As a result, we will reduce DP production at each of our mills to lower costs and maximise the opportunity to produce paper pulp at Cloquet and Ngodwana Mills to

mitigate the impacts on profitability. Some additional DP sales volumes may be placed in China as domestic supply has been limited due to the switching of DP producers to various grades of paper pulp.

The packaging and specialties segment continues to grow, and with much of our volumes sold into the food and hygiene sector, should be more resilient during the crisis. The recent conversions will continue to ramp-up, however, testing for new customers may be delayed somewhat by the lockdown. South African containerboard sales have also been positively affected in April, and the citrus season outlook is encouraging at this stage.

April sales for the graphic paper were materially weaker, with volumes 27% lower in Europe and North America. The lockdown in South Africa has also had a severe impact on newsprint and office paper volumes. This has necessitated extensive downtime on various machines in all regions, with certain staff in Europe and North America being placed on temporary economic unemployment in order to reduce fixed costs. Paper prices have to date not shown any material weakness as a result, and variable cost trends are favourable.

A number of steps have been taken to reduce capital expenditure for the remainder of 2020. As a result of the force majeure declaration, the Saiccor Mill expansion project is likely to only be completed in FY2021. We have also postponed all remaining material discretionary projects and shifted annual maintenance shuts as late as possible. As a result, we now expect capital expenditure for the remainder of fiscal 2020 to be approximately \$200m.

**The full results announcement is** available at [www.sappi.com](http://www.sappi.com)

There will be a conference call to which investors are invited. Full details are available at [www.sappi.com](http://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 and may be used to identify forward-looking statements. 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 to include but are not limited to:*

- *the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicalities, 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 a global economic downturn*
- *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 restructuring and 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.

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#### Sappi



Sappi works closely with customer, both direct and indirect, in over 100 countries to provide them with the relevant and sustainable paper, paper-pulp and dissolving wood pulp products and related services and innovations.

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