

Sappi announces financial results for fourth quarter and full year

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Commenting on the group's results, Sappi chief executive officer Steve Binnie said: "The group's performance over the past year was severely impacted by the Covid-19 pandemic, the related government lockdowns and the ensuing economic after-effects. While the first half of the year was satisfactory given that we started the year with dissolving pulp prices at historic lows, the third quarter saw the full impact of Covid-19 before a gradual recovery began in the fourth quarter, in particular for dissolving pulp (DP). The improvement is further evidenced by the quarter-on-quarter improvement in EBITDA from \$26m to \$82m."

Throughout this unprecedented time the health and safety of our employees remained paramount. A comprehensive Covid-19 action plan enabled us to operate in a safe and uninterrupted manner where demand permitted. Working closely with our customers and suppliers we systematically increased activity and output in response to improved market demand and our support for local communities helped mitigate the impact of the pandemic and the ensuing socio-economic consequences on them.

In response to the challenging market conditions we focused on the preservation of liquidity, lowering costs and re-prioritising various strategic actions.

Commercial downtime of 1.1 million tonnes was taken across all segments as required, in order to match supply to demand and prevent the build-up of inventory. However, this had major repercussions for operating efficiency, fixed cost absorption and profitability. Additionally, non-critical capex projects were deferred, and some annual maintenance shuts were postponed for a short period. The project to expand the Saiccor Mill capacity, which was put on hold through the initial months of the Covid-19 outbreak, is 75% complete and we expect completion in the third quarter of FY2021.

Turning to the financial results for the full year, Binnie said: "The positive highlight for the year was strong growth in sales and profitability for the packaging and specialties segment. This segment has proven to be resilient through the Covid-19 crisis and in difficult economic circumstances. Our strategy to diversify our product portfolio into higher margin and growing segments has been justified fully. Unfortunately, graphic paper usage across the globe declined significantly in line with the Covid-19-related slowdown in economic activity. We believe demand is unlikely to return to pre-Covid-19 levels and respond by reducing capacity at two mills. Lower DP volumes due to Covid-19 exacerbated an already tough operating environment for the segment, as historic low pricing levels persisted throughout the year. Fortunately, demand and pricing began to recover in the fourth quarter."

Looking forward, Binnie stated: "While we are confident of a continued recovery through 2021, it is unclear what the potential negative impact will be of the increased Covid-19 infections rates and associated stricter lockdown regulations across Europe."

Financial summary for the quarter and full year

- EBITDA excluding special items
 - For the quarter \$82m (Q4 FY19 \$185m)
 - For the year \$378m (FY19 \$687m)
- Loss for the period

- For the quarter \$88m (Q4 FY19 profit of \$50m)
- For the year \$135m (FY19 profit of \$211m)
- EPS excluding special items
 - For the quarter -4 US cents (Q4 FY19 10 US cents)
 - For the year -5 US cents (FY19 44 US cents)
- Cash generation for the quarter of \$88m (Q4 FY19 \$173m)
- Net debt \$1,957m (FY19 \$1,501m)

For the quarter, packaging and specialities volumes and profitability increased compared to the prior year as the US business in particular experienced encouraging sales growth across all of the major product categories, offsetting a slightly weaker performance from the European business which was affected by the temporary shut of Alfeld PM3 following the fire at that machine in the previous quarter and softer demand for non-essential consumer products. The South African containerboard business also achieved a strong end to the year.

Industry demand for DP recovered faster than expected as global clothing retail sales rebounded and supply chain inventory levels, which had been allowed to run down, were refilled. In response to lower demand, we temporarily shut the calcium line at Saiccor and switched some capacity at Cloquet to paper pulp. As a consequence, DP volumes were 29% lower than the prior year.

Graphic paper demand in Europe and North America was most affected by Covid-19 over the May/June period. Since then we have experienced a slow recovery through to September with volumes 32% lower than last year. Downtime of 321,000 tonnes was taken in the fourth quarter, less than that required in the prior quarter, helping to improve profitability. Export markets, many of which were impacted later by Covid-19, were particularly weak. South African newsprint and uncoated woodfree demand continues to be impacted by the weaker domestic economy.

Earnings per share excluding special items for the quarter was a loss of 4 US cents. Special items for the quarter reflected an expense of \$39m. This related mainly to asset impairments due to weaker market conditions and restructuring provisions including the machine closures at Stockstadt and Westbrook Mills.

Net cash generated for the quarter was \$88m, compared to \$173m in the equivalent quarter last year. The decrease was as a result of reduced profitability and restructuring costs, offset somewhat by lower capital expenditure. Capital expenditure of \$95m related mainly to the expansion of DP capacity at Saiccor Mill.

Outlook

Underlying demand for most packaging and speciality products remains robust, driven by consumer preference and the shift from plastic to paper. First quarter sales volumes will be impacted in both Europe and South Africa by usual seasonal weakness and exacerbated by both the Ngodwana Mill annual maintenance shut, which was delayed from the third quarter of FY2020 and the scheduled Somerset Mill annual maintenance shut. These shuts will have an estimated \$30m impact on profitability, predominantly linked to the packaging segment. Some products remain affected by weaker economic activity in certain regions or end use markets impacted by Covid-19.

Market conditions for DP have improved and pricing has recovered during October. At the time of this report the Chinese market price has risen to \$680/tonne, driven by an acceleration in DP demand, tighter market balance and higher viscose staple fibre prices. However, in the short term, the combination of the mill maintenance shut at Ngodwana Mill, constrained production on the calcium line at Saiccor Mill due to the closure of the Lignotech joint venture and DP pricing which still favours own consumption paper pulp production at Cloquet Mill, will mean that DP sales volumes in the first quarter will be only marginally higher than in the preceding quarter. Port and rail challenges in South Africa may additionally impact sales volumes for the quarter. We are evaluating opportunities to recover some of the lost DP production prior to the completion

of the Saiccor Mill expansion project.

Graphic paper demand continues to improve, and a series of paper machine and mill closures or conversions in the industry recently completed or imminent should improve operating rates in the coming quarter and year. However, a second wave of Covid-19 infections in Europe is leading to stricter lockdown conditions and a slowing of the recovery in many countries. Pricing is expected to move in line with variable cost movements.

Current liquidity headroom in the group remains good, with cash deposits at the end of the quarter of \$279m and committed revolving credit facilities of approximately \$582m. We negotiated an extension of our credit facility covenant waiver suspension period until September 2021. The first measurement of these covenants will now take place at the end of December 2021.

Capital expenditure in FY2021 is estimated to be \$370m and includes approximately \$100m related to the decision to delay the Saiccor Mill expansion project and the postponement of major shuts at Saiccor and Ngodwana Mills which reduced capital expenditure in FY2020.

In the first quarter the underlying performance of the business will continue to improve, barring a widespread Covid-19 second wave, driven by the current recovery in DP and graphic paper markets. However, this will be offset by the impact on the packaging and speciality segment of the delayed shut at Ngodwana Mill and the scheduled annual maintenance shut at Somerset Mill. As a result, EBITDA in the first quarter of FY2021 is expected to be slightly below that of the fourth quarter of FY2020. We remain encouraged by the resilience of our business and the opportunities offered by our strategic focus on the transition of the business towards higher growth segments.

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 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 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 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
- 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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