

# Q1 FY18 financial results

7 February 2018



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>.*



# Summary



# Highlights

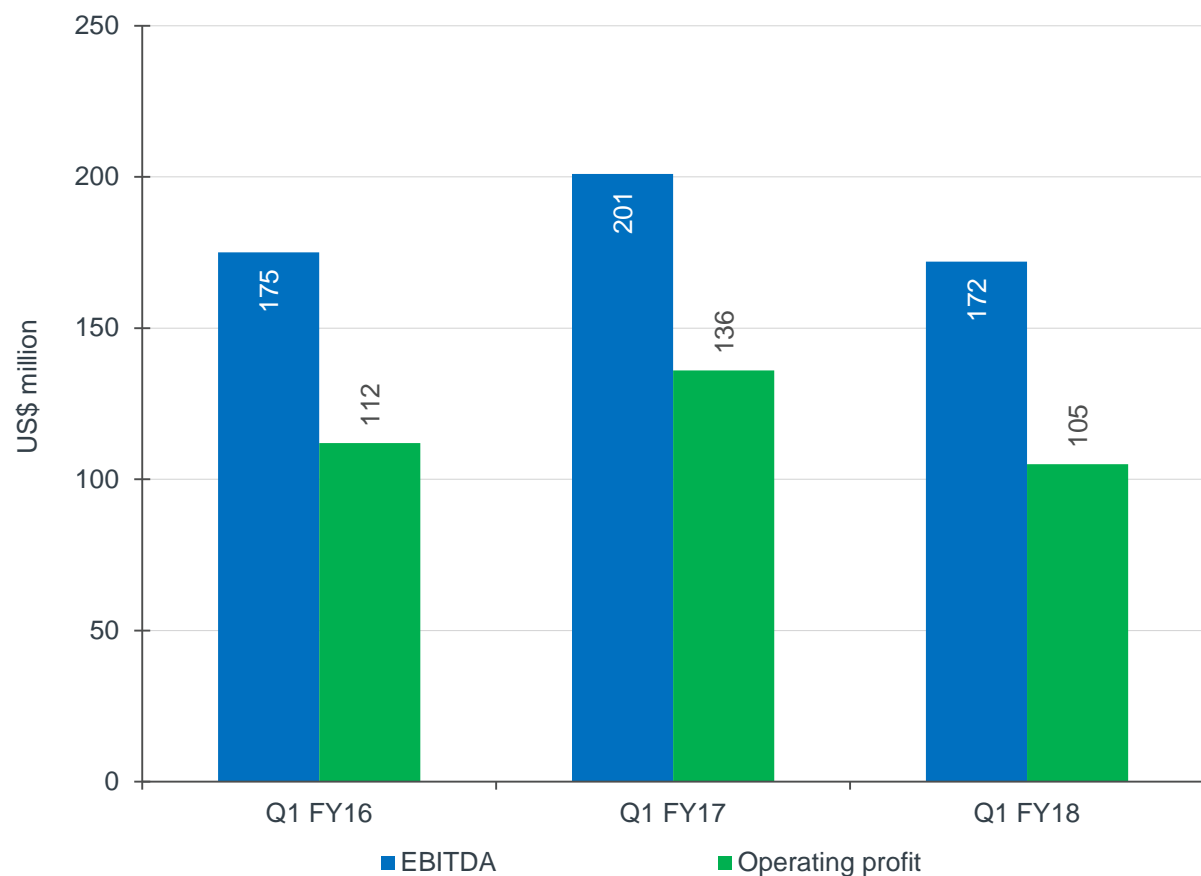
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Q1 FY18

- EBITDA ex-special items: US\$172m (Q1 FY17: US\$181m like-for-like)
- Profit for the period: US\$63m (Q1 FY17: US\$90m)
- EPS ex-special items: 14 US cents (Q1 FY17: 16 US cents)
- Net debt: US\$1,349m (Q1 FY17: US\$1,338)

# EBITDA and operating profit

Excluding special items\*

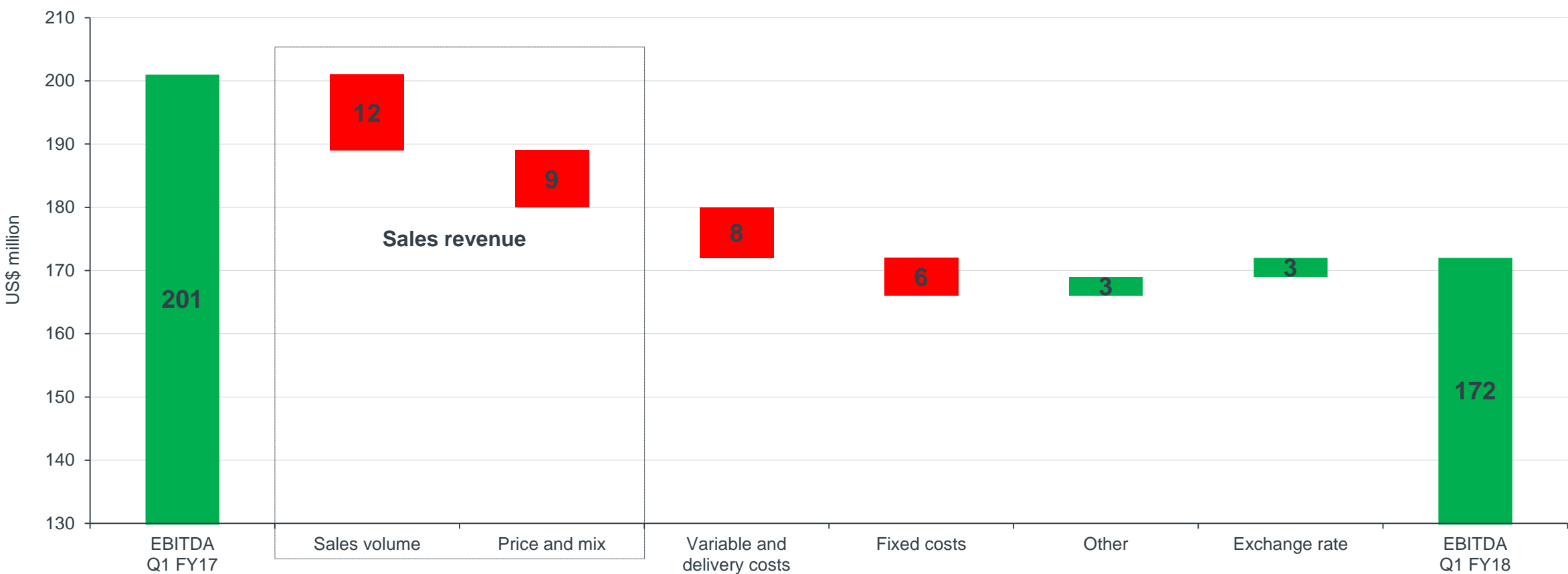


Key ratios	Q1 FY16	Q1 FY17	Q1 FY18
Net debt/LTM EBITDA	2.6	1.7	1.8
Interest cover	5.1	7.7	9.9
EBITDA %	13.6	15.4	12.9
ROCE %	16.2	19.5	13.5

\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 18 in our Q1 FY18 financial results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

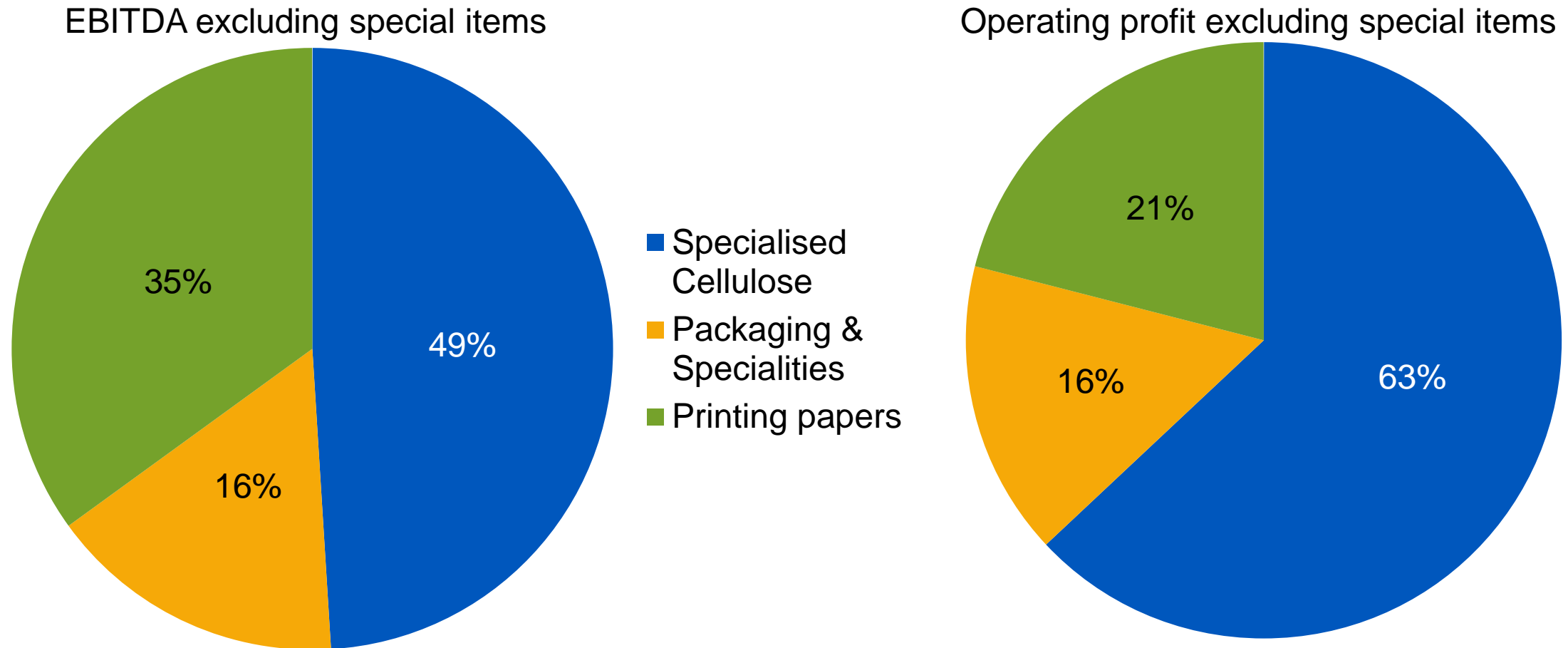
# EBITDA bridge\*

Q1 FY17 to Q1 FY18



All variances calculated excluding Sappi Forests.  
'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 18 in our Q1 FY18 financial results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

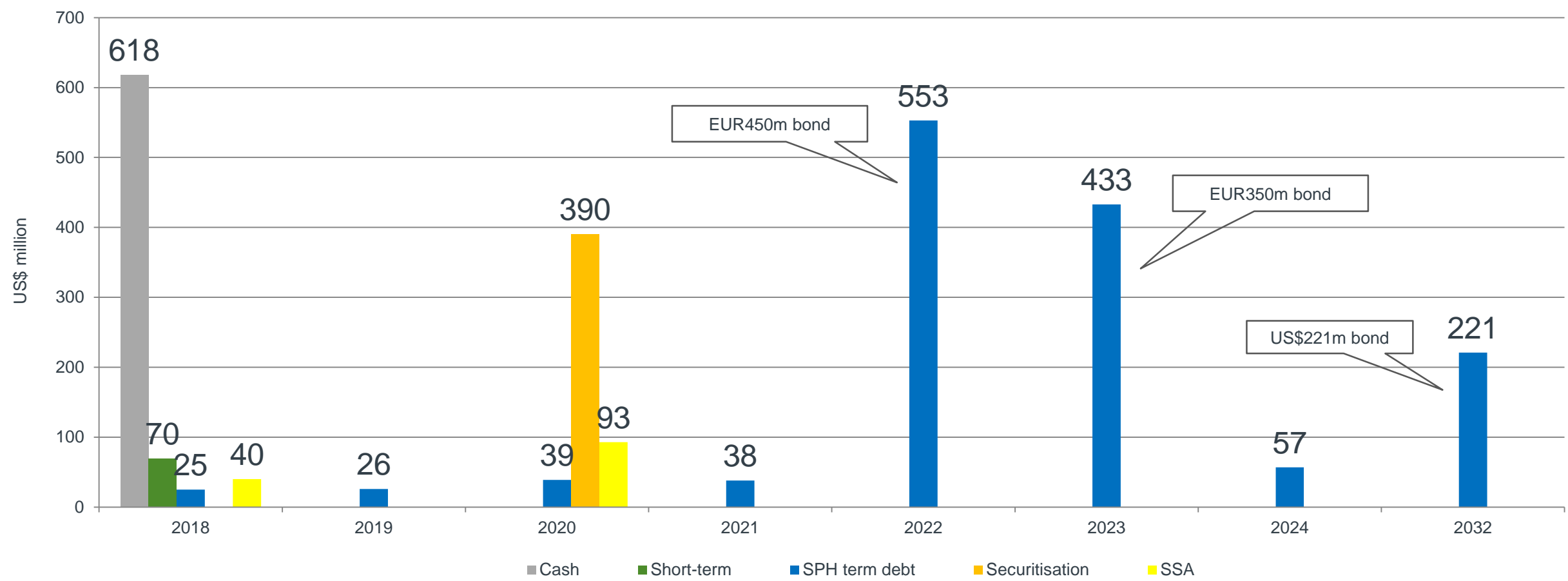
# Product contribution split - LTM



\* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 18 in our Q1 FY18 financial 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.

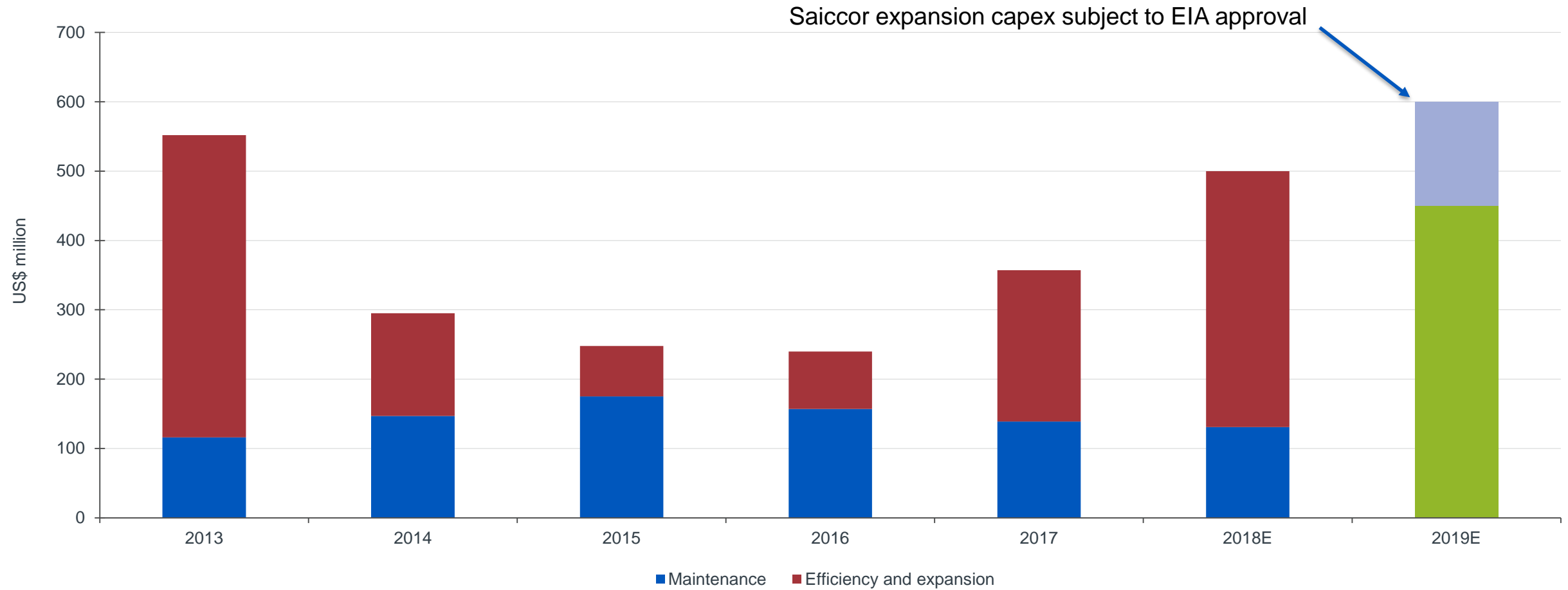
# Maturity profile

Fiscal years

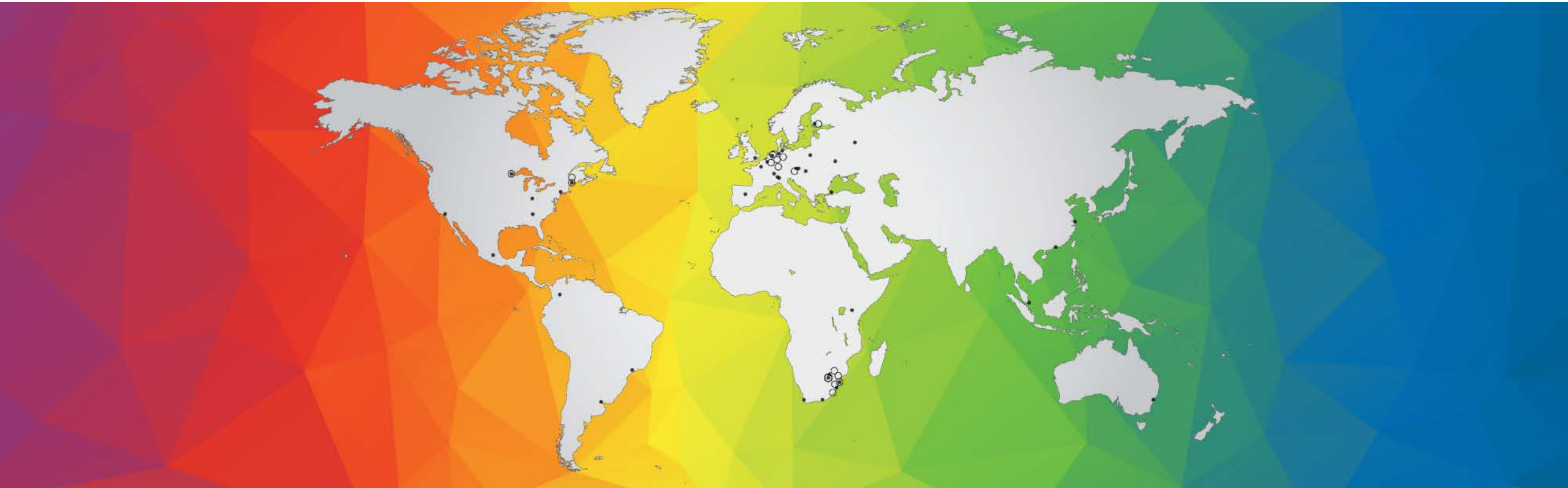




# Capex development



# Divisional overview



# Global P&W paper market trends

- Supply and demand
  - Robust export markets for European producers – less competition from Asian producers
  - Capacity closures in North America – 15% reduction in local supply
- Selling prices and input costs
  - Coated paper prices rising globally, further increases in Europe and North America announced.
  - Variable costs pressure, especially paper pulp and latex.
  - Lag effect between pulp and paper prices squeezing margins.
- Strategy
  - Conversion of coated capacity to packaging in line with coated demand declines.
  - Investments at key mills/machines to lower costs
  - Procurement and efficiency programs to further reduce costs.

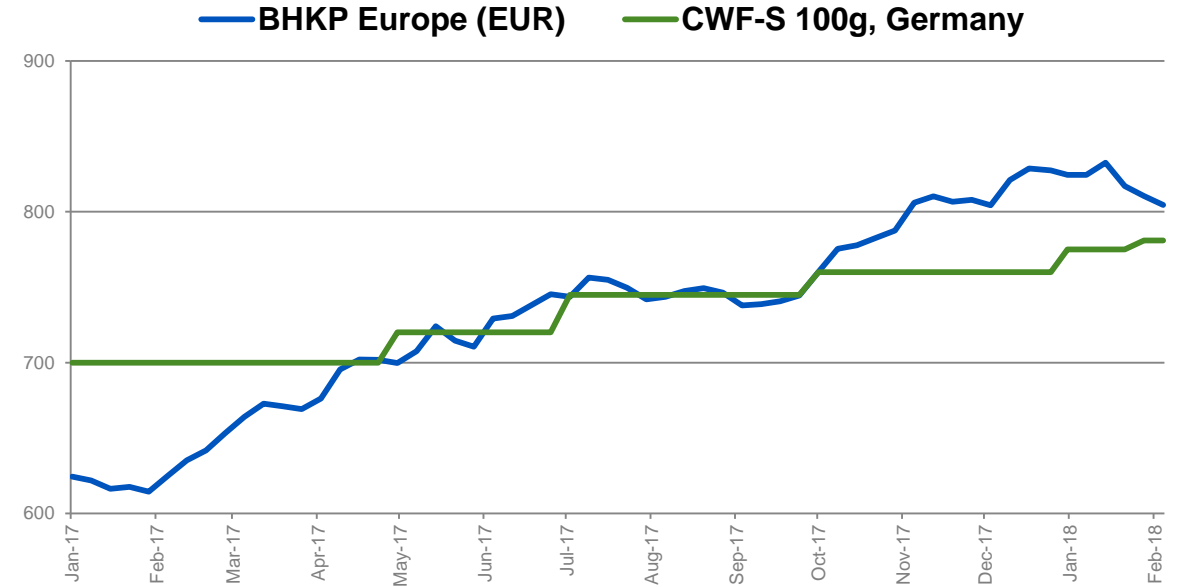
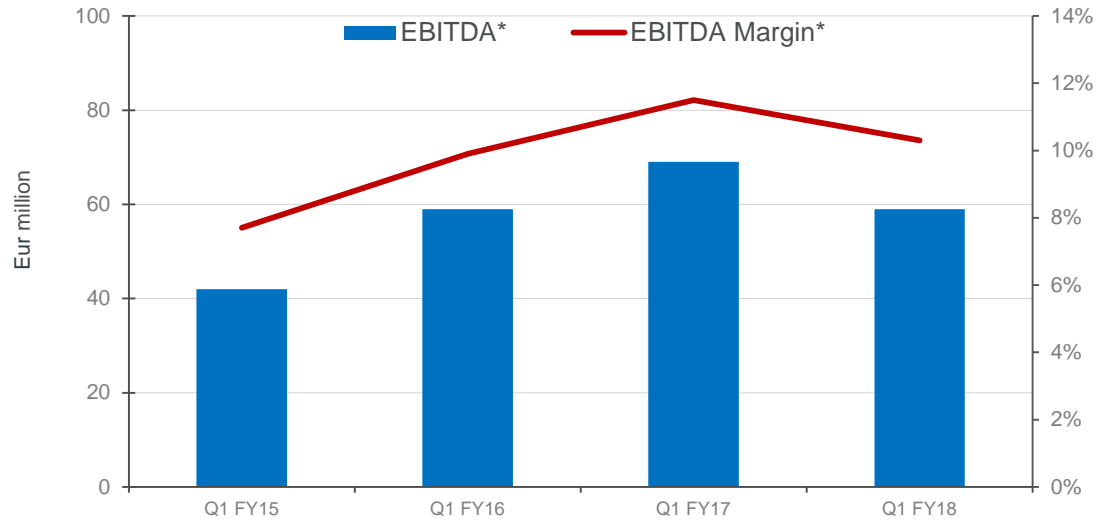
# Global S&PP market trends

- Supply and demand
  - Growing trends driven by legislation and environment to encourage more paper based packaging
  - Speciality packaging paper long-term demand continues to grow 1-5%, more recently well above this.
  - Strong virgin fiber packaging demand in South Africa
- Selling prices and input costs
  - Export price increases announced to offset Euro strengthening
- Strategy
  - Conversion of coated capacity to packaging in line with packaging growth
  - R&D investment to expand product offering and applications
  - Procurement and efficiency programs to further reduce costs.
  - Acquisition of Cham paper – complementary and new products

# Global DWP market trends

- Supply and demand
  - Continued strong demand from new viscose capacity.
  - New market DWP capacity likely in 2019 – limited capacity addition 2018.
  - Some swing mills revert to BHK pulp production due to high paper pulp pricing
- Selling prices and input costs
  - DWP market prices rise heading into Chinese New Year
  - Polyester and cotton prices have risen, VSF pricing recovering slowly due to low operating rates
  - Paper pulp prices increased – more attractive for swing capacity.
- Strategy
  - Maintain low-cost position.
  - Continue working with customers to support common growth.
  - Debottlenecking mills – to add 90kt.
  - Expansion of Saiccor by 110kt subject to EIA approval
  - Long-term growth opportunities, both internal and external.

# Sappi Europe

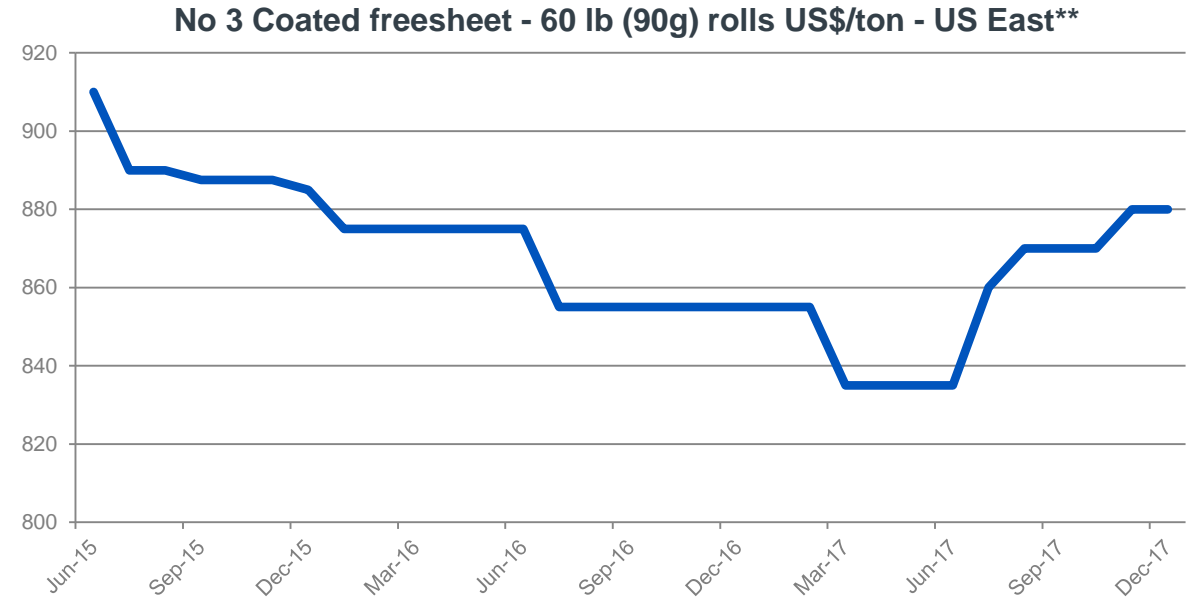
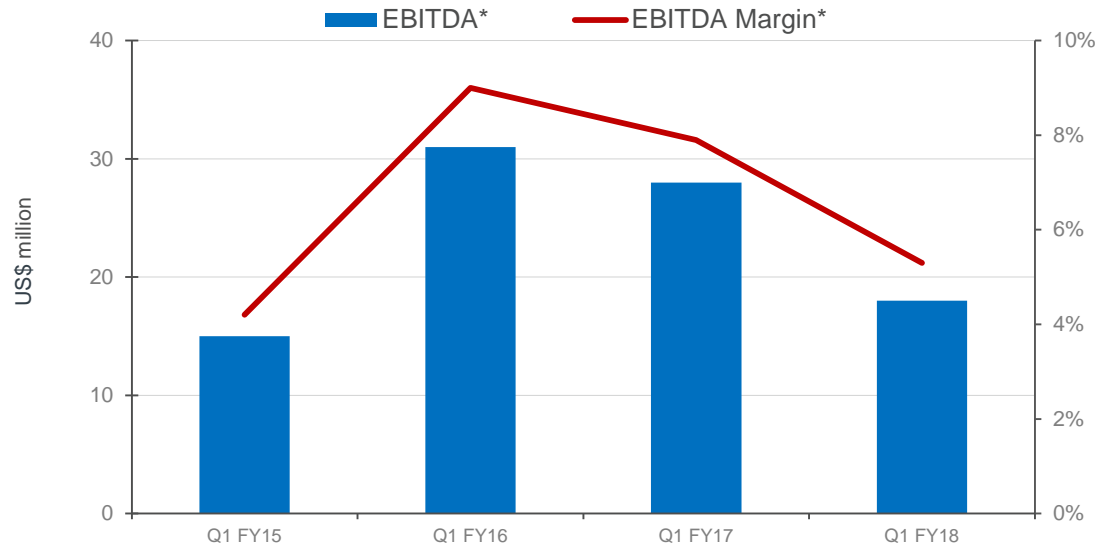


- Solid performance, strong export volumes and price realisation on local graphics sales
- Input costs continue to rise, particularly paper pulp and latex
- Specialities volumes up 9% (normalised)
- Variable and fixed costs were both 2% higher.

\* 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 18 in our Q1 FY18 financial results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.



# Sappi North America

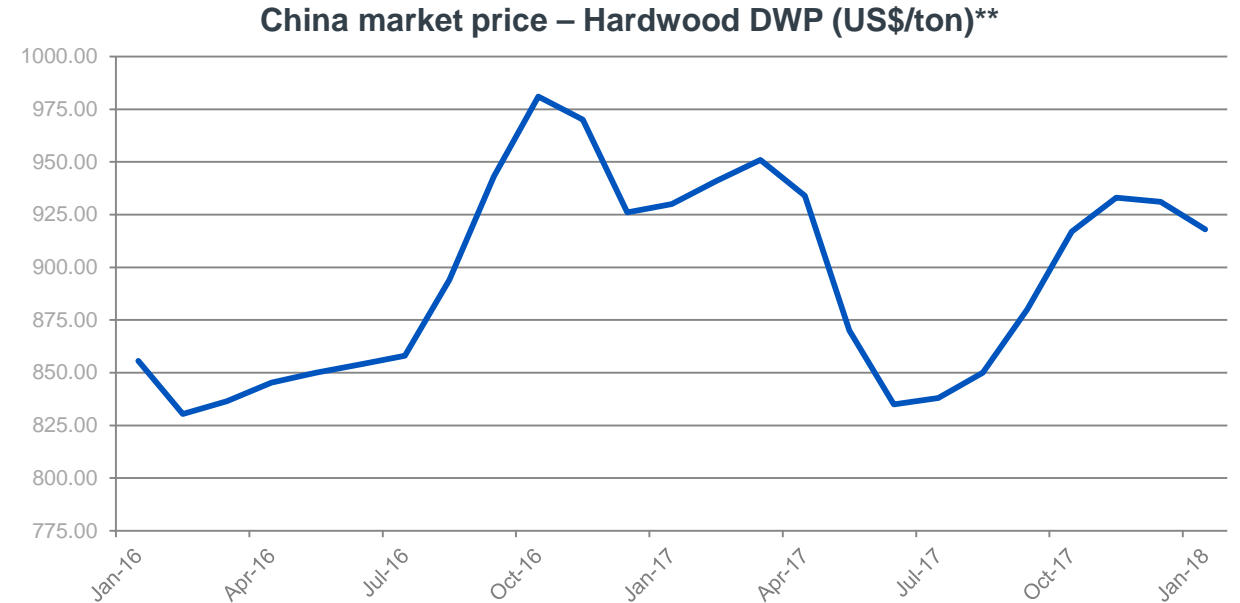
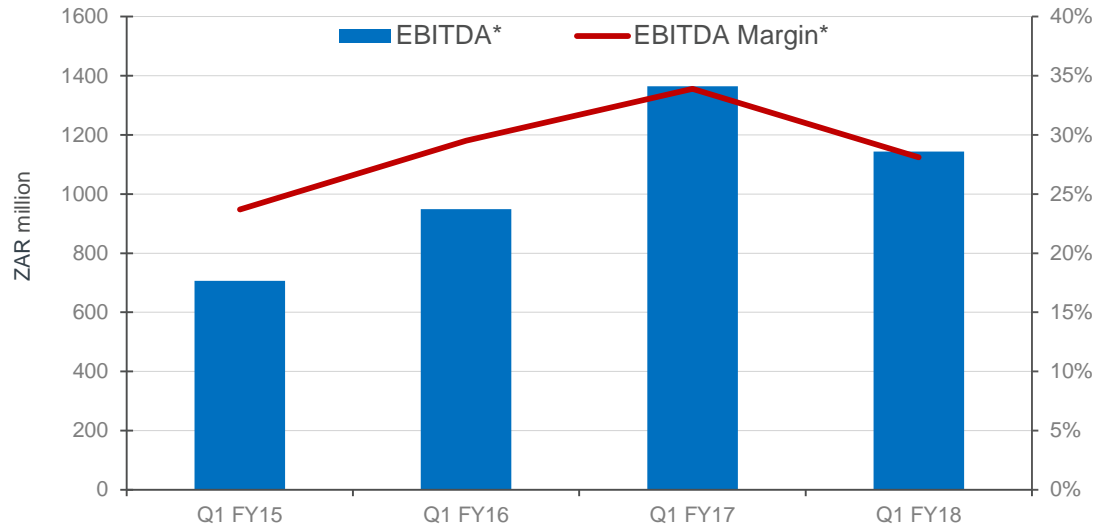


- Volumes were lower on production challenges and ongoing capital projects at Somerset.
- Average realised coated paper prices rose, more expected in coming quarter
- Increased DWP sales volumes, lower pricing however
- Extended shut for woodyard and PM1 conversion – additional US\$6m impact in the quarter

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\*\* Source: RISI

# Sappi Southern Africa

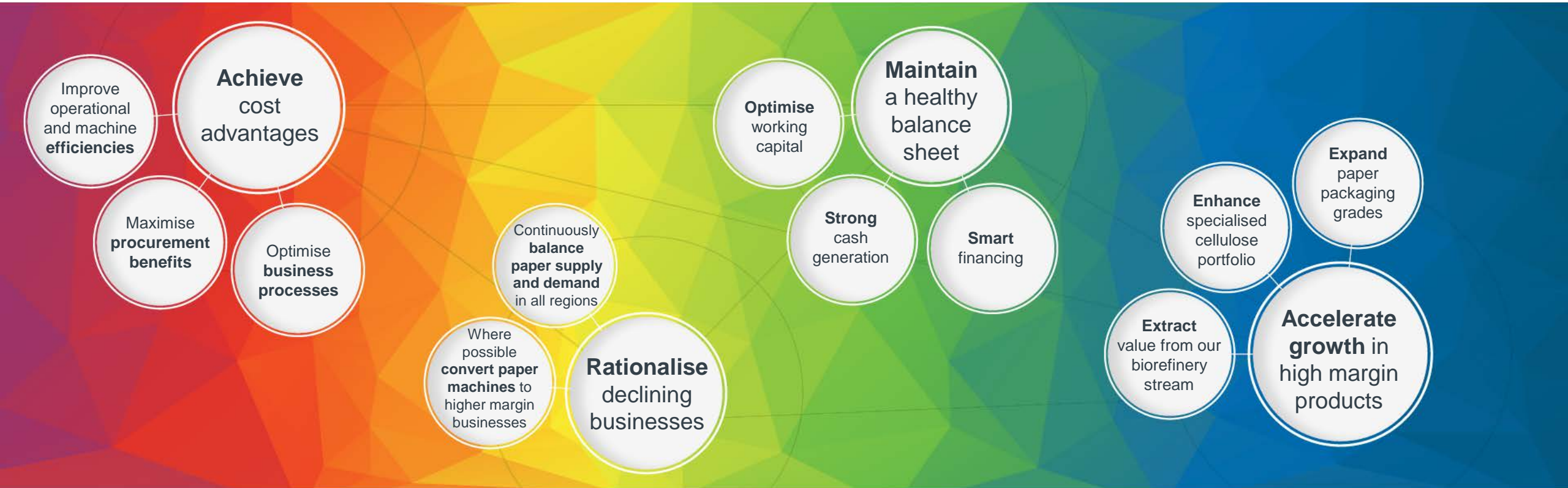


- Strong packaging paper demand
- Increased sales volumes and pricing for newsprint and office papers.
- Realised US\$ prices for DWP were lower and ZAR strength impacted margins - spot prices have risen since quarter-end.
- Costs well controlled, higher energy costs offset by reduced fiber usage.

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\*\* Source: CCF

# 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\$60m target for 2018.
  - Ongoing continuous improvement across all mills.
  - US\$50m investment in Saiccor Mill woodyard.
  - €30m upgrade to Gratkorn PM9

# 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.
  - Progressive transition of Lanaken Mill out of LWC.
  - Reduced CWF exposure at Maastricht Mill, Ehingen Mill and Somerset Mill PM1.
  - Conversion of Somerset PM1 and Maastricht Mill



# Our group strategy



- Maintain leverage below 2x Net debt:EBITDA
- US\$400m 2017 bonds called in April 2017.
  - US\$21m in net finance cost savings/annum.
- Refinancing and debt reduction leads to lower finance cost - US\$60-70m/annum going forward - and EPS growth.



# Our group strategy



- We will make investments in existing and adjacent areas with strong potential growth.
  - Debottlenecking of Saiccor, Cloquet and Ngodwana DWP.
  - Investments in Speciality packaging incl. Rockwell and Cham Paper
  - Additional packaging at Ngodwana and Tugela Mills.
  - Securing additional HW timber supply.
  - Biomaterials, bio-chemicals – lignins, sugars.
  - Expansion of Saiccor by 110kt/annum

# DWP expansion plans



- **Debottlenecking**
  - Saiccor – 10kt complete April 2018
  - Ngodwana – 50kt complete September 2018
  - Cloquet – 30kt complete Q3 2019
    - additional 70kt swing capacity available
- **Expansion**
  - Saiccor – 110kt ≈Q3 2020 subject to positive EIA
- **External**
  - Paper pulp prices impacting valuations and returns



# Outlook



# Outlook

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- DWP demand good – pricing to recover in Q2.
- In Europe, utilisation rates remain good, higher sales prices lag pulp cost increases
- In NA paper price increases offset by extended downtime on PM1 at Somerset.
- Maastricht and Somerset Mills conversions complete in 2<sup>nd</sup> and 3<sup>rd</sup> quarters, respectively.
- Cham Paper acquisition to close end February 2018
- Capex to be US\$500m on conversions in EU/NA, debottlenecking DWP at Saiccor/Ngodwana/Cloquet and upgrade of the Saiccor wood-yard – leading to stronger profitability in 2019.
- Q2 expected to be below last year due to stronger ZAR, lower DWP prices

# Thank you





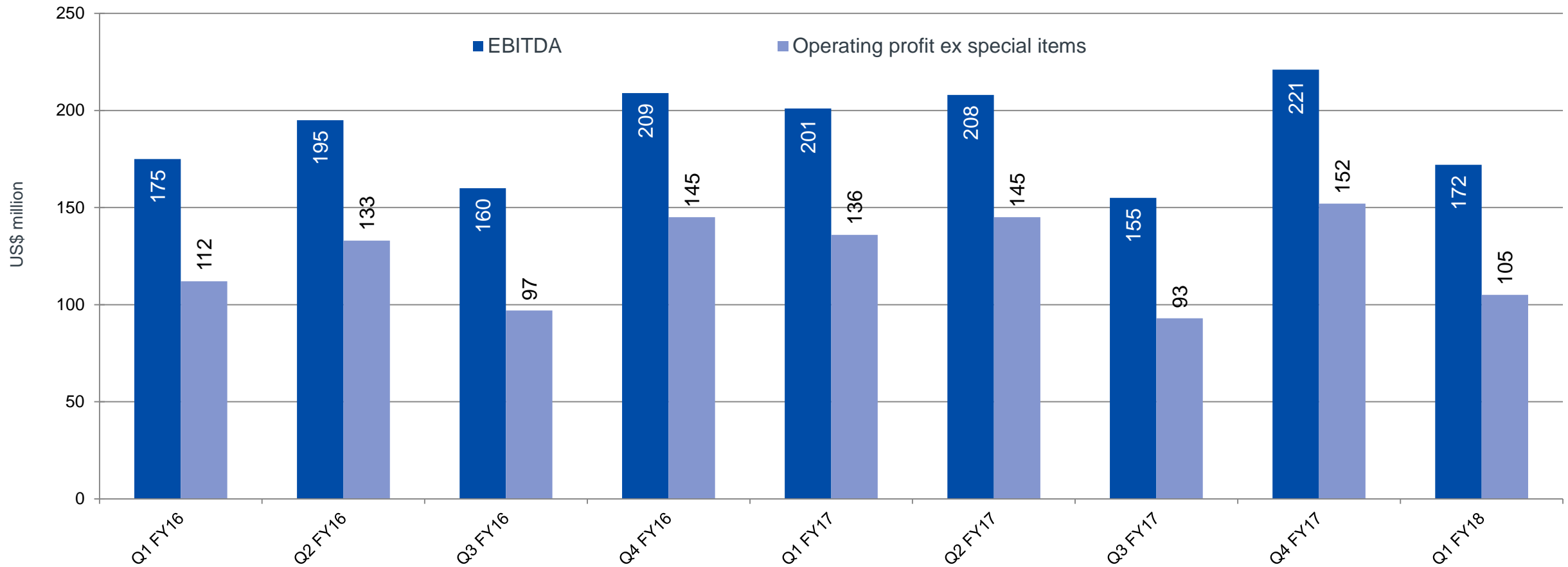
# Supplementary information





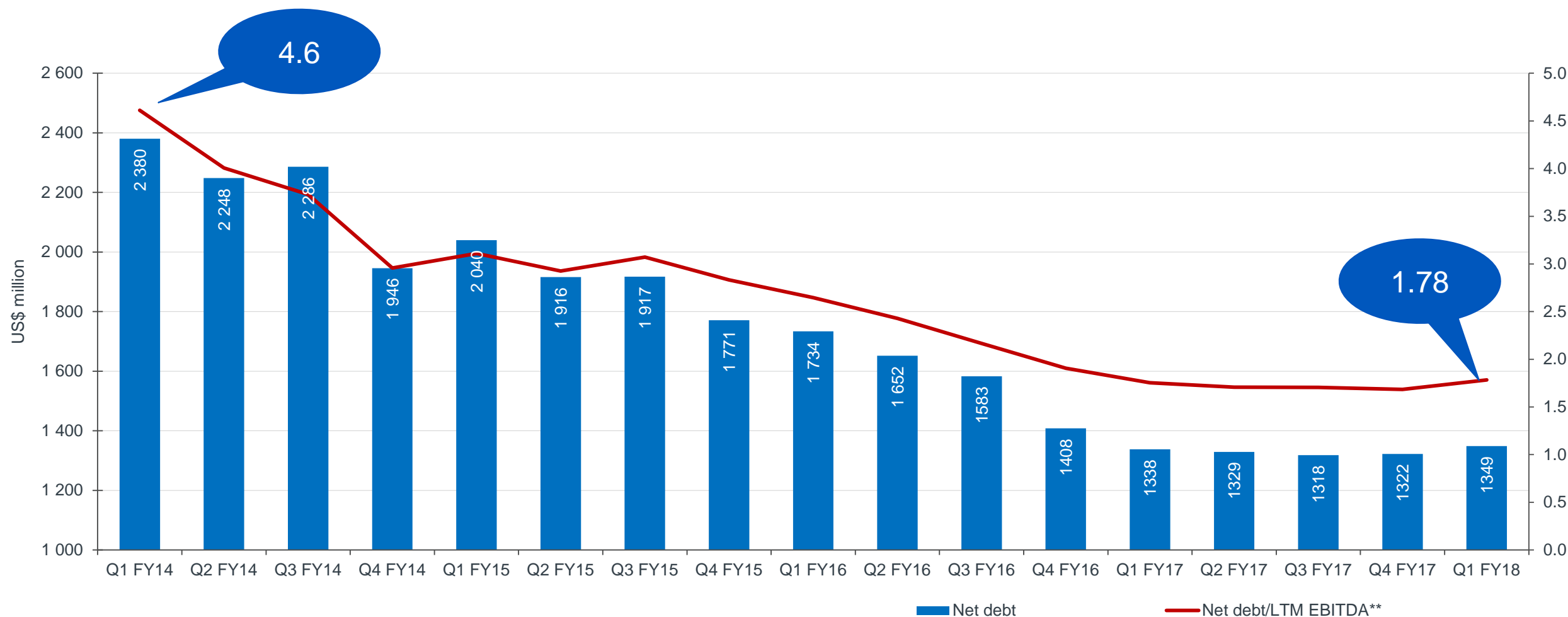
# EBITDA and operating profit

Excluding special items\*



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# Net debt/EBITDA development

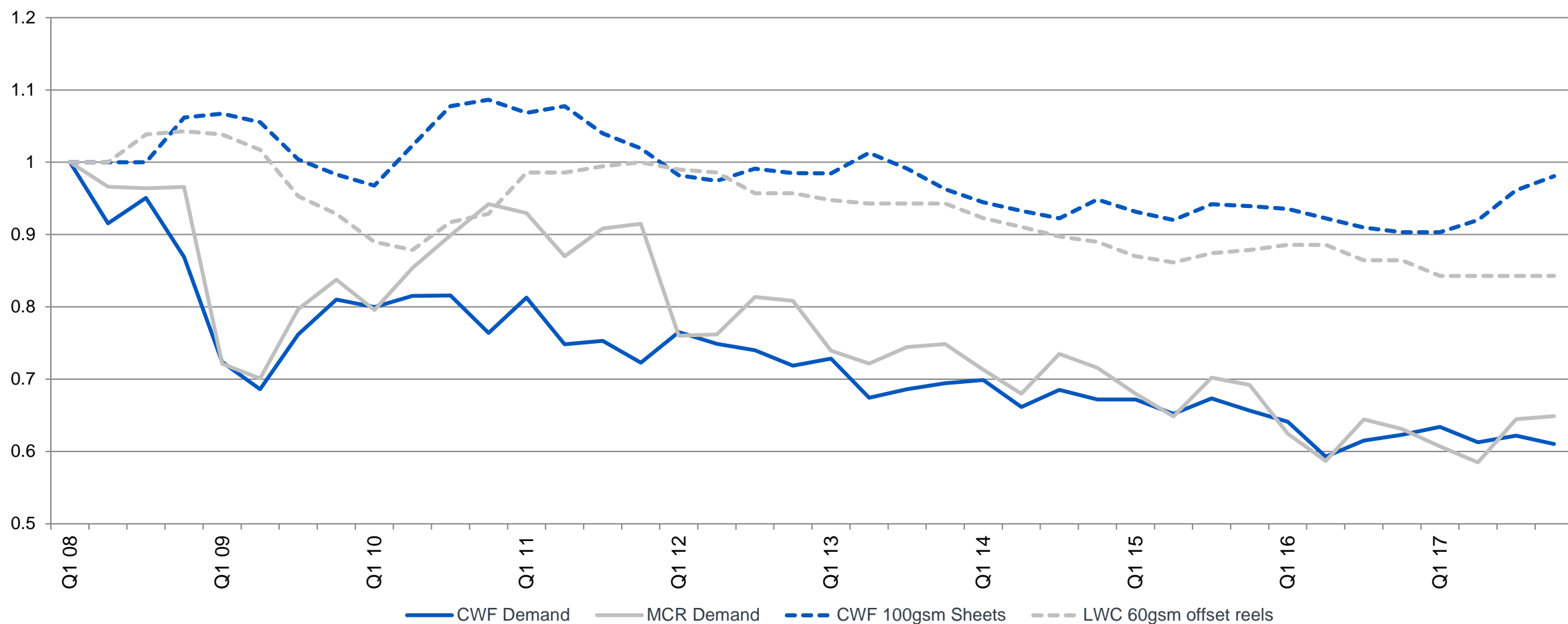


\* EBITDA is excluding special items.

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

# Coated paper deliveries and prices

## Western Europe



Western Europe shipments including export.

Source: Cepifine, Cepiprint and RISI indexed to calendar 1Q 2008.

# Sappi Europe

	Q1 FY18	Q4 FY17	Q1 FY17
Tons sold ('000)	822	842	867
Sales (EURm)	571	583	602
Price/Ton (EUR)	695	692	694
Cost/Ton* (EUR)	657	651	648
<b>Operating profit excluding special items** (EURm)</b>	<b>31</b>	<b>35</b>	<b>40</b>

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

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# Sappi packaging and speciality papers

## Global production sites



**Alfeld Mill (Germany)**

Flexible packaging, label, SBB board, topline and release liner



**Ehingen Mill (Germany)**

Topliner – Fusion®



**Somerset Mill (USA)**

Label paper – LusterCote® and Flexpack paper – LusterPrint®



**Tugela Mill (South Africa)**

Liner – UltraTest® and Fluting – UltraFlute®

**Maastricht Mill (The Netherlands)**



Folding boxboard – atelier™

**Cloquet Mill (USA)**



Label paper – LusterCote®

**Westbrook Mill (USA)**



Casting and release paper – Ultracast® & different classic brands

**Ngodwana Mill (South Africa)**



Liner – KraftPride®

# Markets and growth rates

## Global market size – Speciality packaging



### Flexible packaging and label papers

- C1S papers
- 1.2 million tons
- Growth: 2-3%pa



### Release liner

- CCK graphic arts
- 300,000 tons
- Growth: 6%pa



### Rigid packaging

- SBS printing and converting
- 4.7 million tons
- Growth: 2%pa



### Containerboard

- Coated white Topliner
- 1 million tons
- Growth: 1-2%pa



### Functional papers

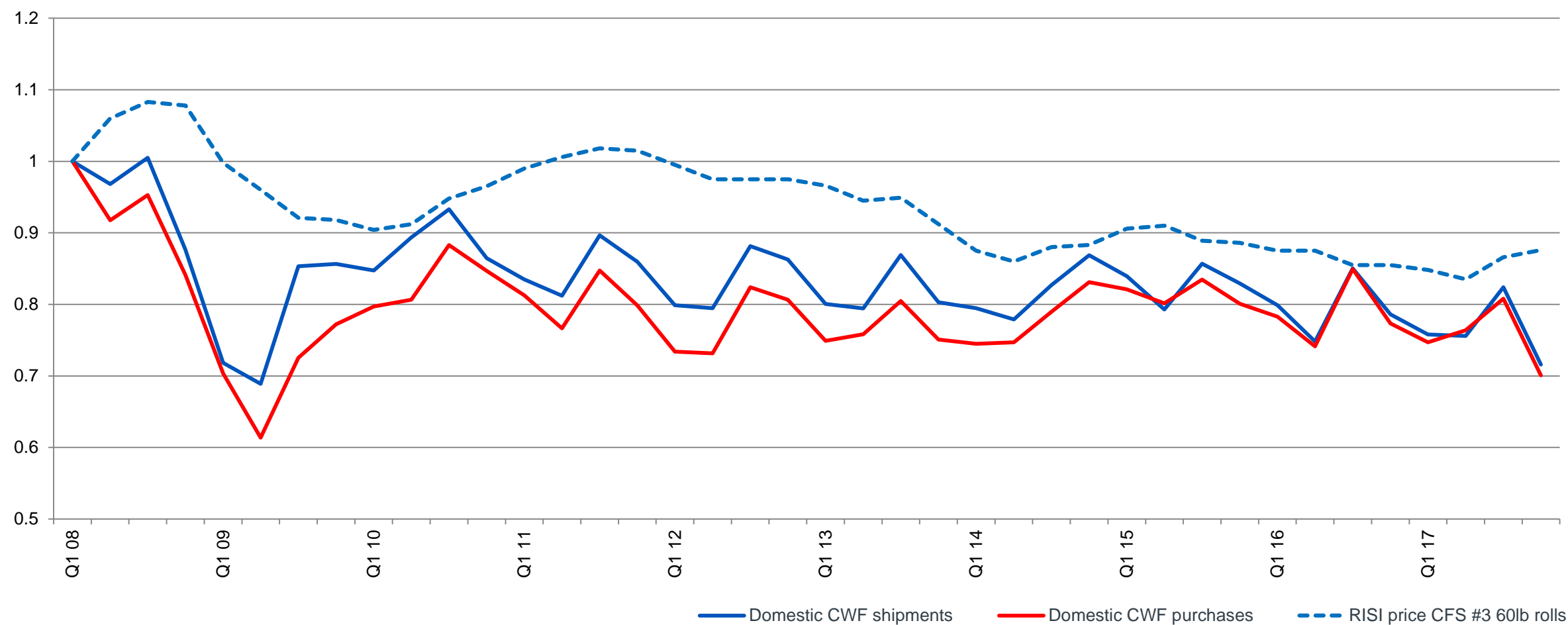
- Barrier and grease resistant papers
- Virtually unlimited

Source for growth rates: AWA, Pira and RISI.



# 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 North America

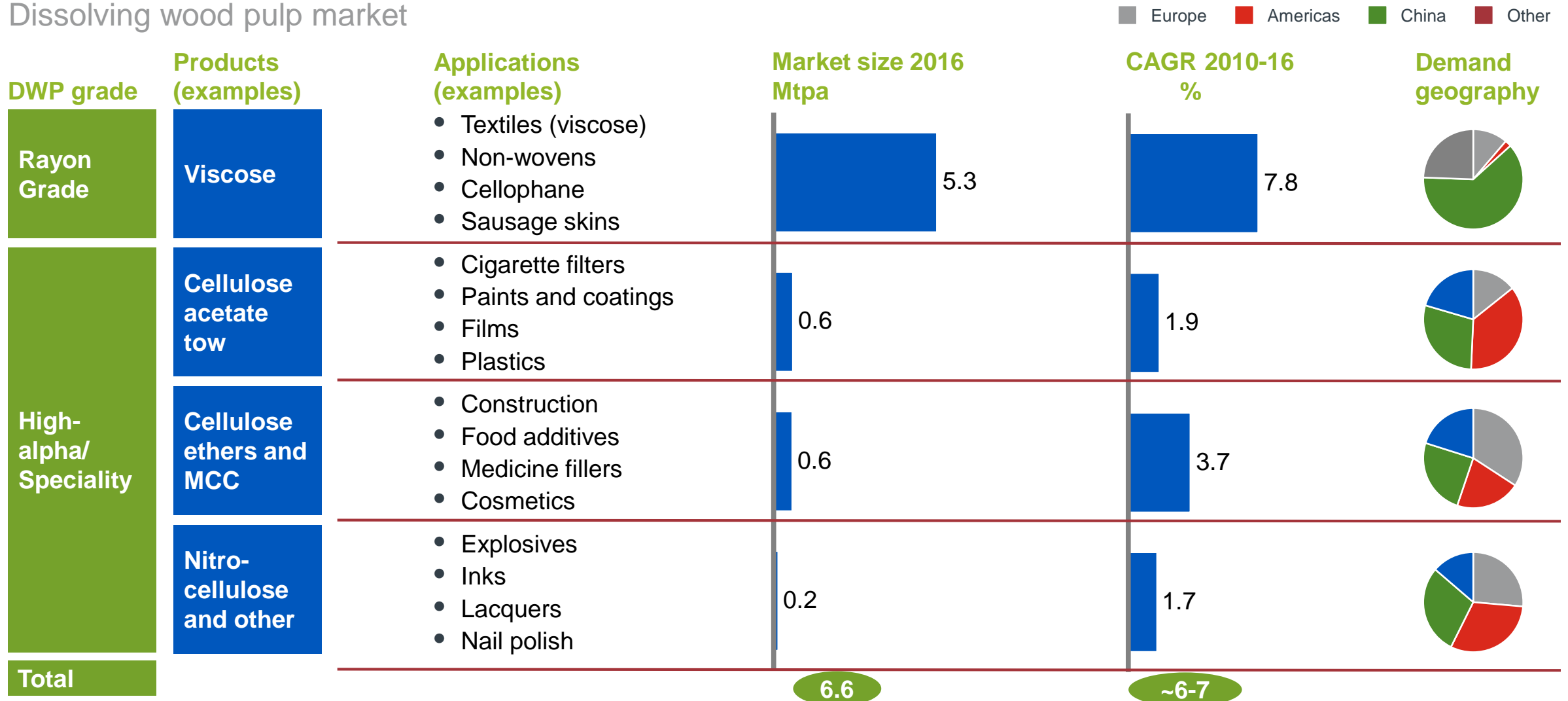
	Q1 FY18	Q4 FY17	Q1 FY17
Tons sold ('000)	343	361	353
Sales (US\$m)	342	357	354
Price/Ton (US\$)	997	989	1,003
Cost/Ton* (US\$)	1,000	914	980
<b>Operating profit excluding special items** (US\$m)</b>	<b>(1)</b>	<b>27</b>	<b>8</b>

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

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# Viscose-grade DWP is used almost exclusively in textile applications

## Dissolving wood pulp market



Source: Hawkins Wright; Fibre Year 2017; RISI 'Dissolving Pulp Monitor' (Jan 2017) and 'Outlook for the Global Dissolving Pulp Market'.

# Cellulosic fibre properties are superior to cotton and polyester for many textile applications

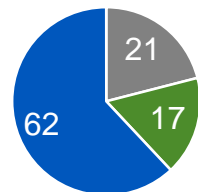
✓✓ Key strength    ✓ Qualifies    ✗ Issue

■ Nonwovens/Technical textiles    ■ Home textiles    ■ Apparel

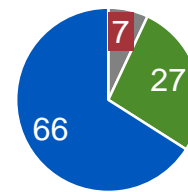
## Fibre properties and applications

### Applications

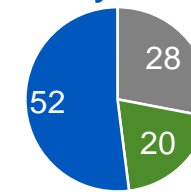
Cellulosic fibres



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

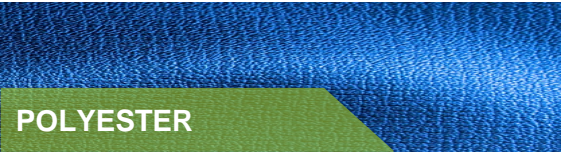
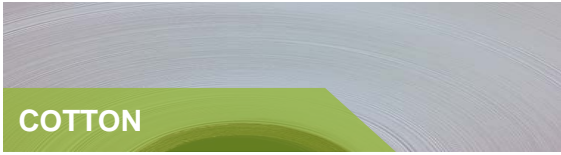

- Natural, functional and well established

- 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.

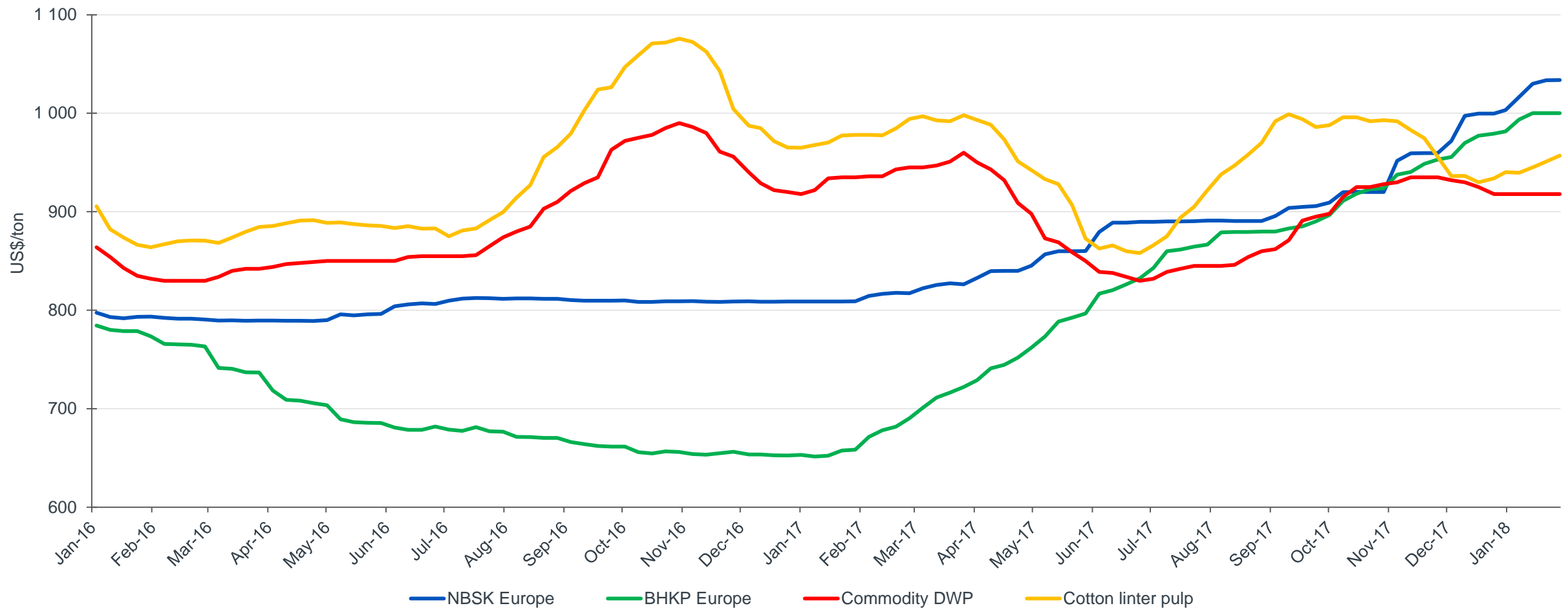
Source: IHS Global, RISI, Hawkins Wright.

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

	 <b>POLYESTER</b>			 <b>COTTON</b>			 <b>CELLULOSIC</b>		
	Today	Future	Gap	Today	Future	Gap	Today	Future	Gap
<b>Apparel</b>									
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%
<b>Home textile</b>									
Towels	5%	5%	0%	80%	75%	-6%	15%	20%	+33%
Bedding	45%	55%	+22%	45%	40%	-11%	1%	2%	+100%

Source: Expert interviews.

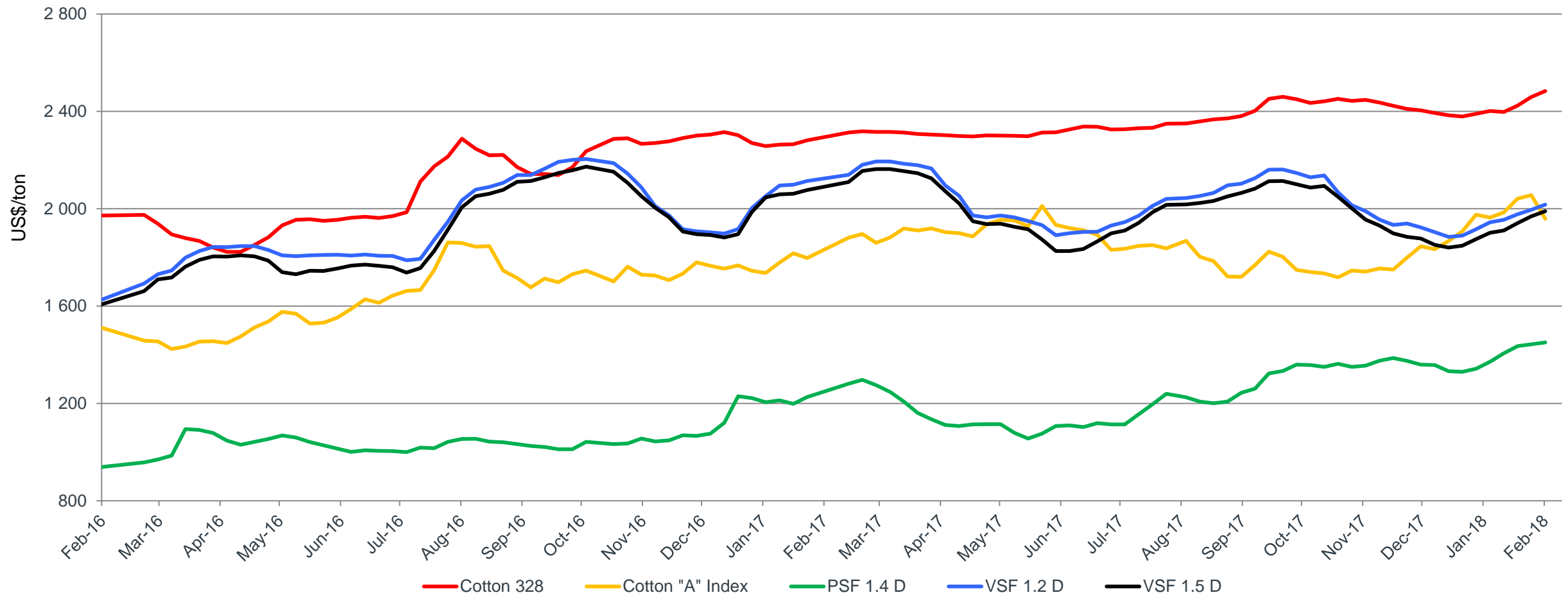
# Pulp prices\*



\* Source: FOEX, CCF group.



# Textile fibre prices\*



\* Source: CCF group.

# Sappi Southern Africa

	Q1 FY18	Q4 FY17	Q1 FY17
Tons sold ('000)	383	447	364
Sales (ZARm)	4,073	4,641	4,022
Price/Ton (ZAR)	10,634	10,383	11,049
Cost/Ton* (ZAR)	8,180	7,908	7,838
<b>Operating profit excluding special items** (ZARm)</b>	<b>940</b>	<b>1,106</b>	<b>1,169</b>

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

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# Cash flow

US\$m	Q1 FY18	Q4 FY17	Q1 FY17
<b>Cash generated from operations</b>	<b>162</b>	<b>204</b>	<b>202</b>
Movement in working capital	(83)	103	(97)
Net finance costs paid	(6)	(20)	(17)
Taxation refund (paid)	6	(38)	(34)
Dividend paid	-	-	-
<b>Cash generated from operating activities</b>	<b>79</b>	<b>249</b>	<b>54</b>
<b>Cash utilised in investing activities</b>	<b>(93)</b>	<b>(208)</b>	<b>(37)</b>
Capital expenditure	(88)	(197)	(37)
Net proceeds on disposal of assets	-	1	2
Acquisition of subsidiary	-	(11)	-
Other movements	(5)	(1)	(2)
<b>Net cash generated (utilised)</b>	<b>(14)</b>	<b>41</b>	<b>17</b>

# EBITDA and operating profit

Excluding special items reconciliation to reported operating profit

US\$m	Q1 FY18	Q4 FY17	Q1 FY17
<b>EBITDA excluding special items*</b>	<b>172</b>	<b>221</b>	<b>201</b>
Depreciation and amortisation	(67)	(69)	(65)
<b>Operating profit excluding special items*</b>	<b>105</b>	<b>152</b>	<b>136</b>
<b>Special items* - gains (losses)</b>	<b>11</b>	<b>(1)</b>	<b>7</b>
Plantation price fair value adjustment	16	7	11
Profit on disposal of assets	-	(2)	-
Asset impairments	-	(6)	-
Fire, flood, storm and other events	(5)	-	(4)
<b>Segment operating profit</b>	<b>116</b>	<b>151</b>	<b>143</b>

\* Refer to page 18 in our Q1 FY18 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

# Thank you

