

FY21 Q1 Results — the period ended December 2020

EBITDA (excl special items) US\$98 million FY20 Q1 US\$139 million	Loss (for the period) (US\$17 million) FY20 Q1 Profit US\$24 million	Net debt US\$2,056 million FY20 Q1 US\$1,916 million	EPS (excl special items) -1US¢ FY20 Q1 6US¢
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Commentary

Despite the ongoing challenges of the Covid-19 pandemic, **profitability** in all reporting segments **exceeded expectations**.

EBITDA improved quarter-on-quarter mainly due to dissolving pulp (DP) **markets** and graphic paper **demand** in North America **recovering** at a faster rate than anticipated.

Covid continued to impact performance with graphic sales still well below 2019 levels.

The pandemic **severely affected global shipping** and container availability which somewhat reduced our DP sales volumes.

Ensuring the **safety of our employees** and supporting our customers and communities remain **a priority**. The global surge of infections and the related employee absenteeism put all our operations under pressure.

DP markets tightened considerably and **market prices rallied**. Key price increase drivers included capacity curtailment, resurgent viscose staple fibre demand and prices, higher paper pulp prices and a weaker US\$/Renminbi exchange rate.

Packaging and specialities sales volumes experienced **encouraging growth** in most categories.

Graphic paper demand continued to slowly **recover** from the impact of Covid. Soft coated mechanical (CM) demand in Europe, weak export markets in South America and Australasia and low selling prices were a drag on profitability in this segment.

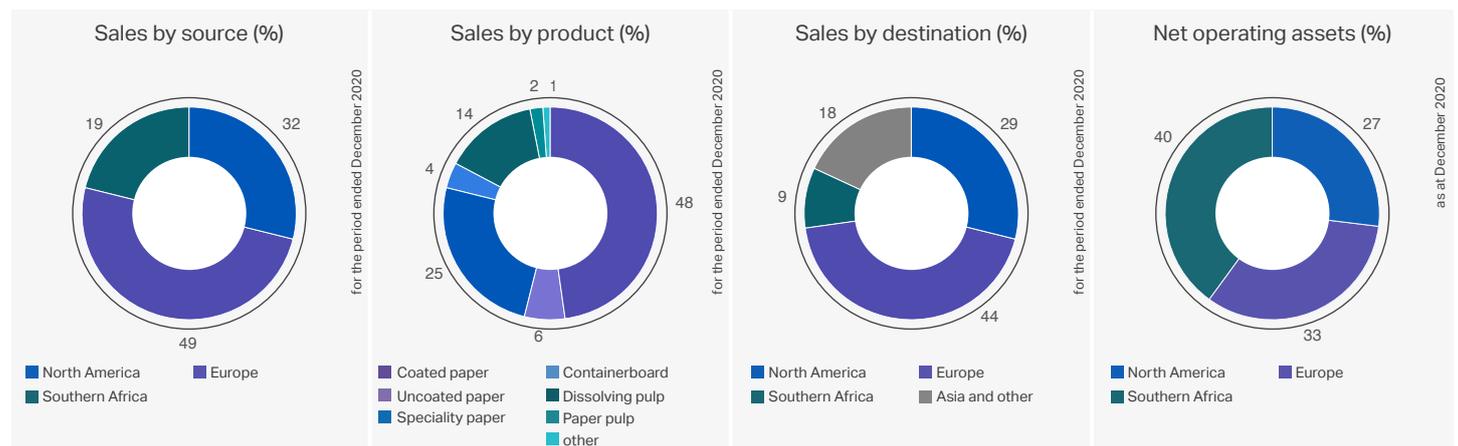
	US\$ million	Quarter ended		
		Dec 2020	Dec 2019	Sept 2020
Key figures				
Sales		1,163	1,302	1,092
Operating profit (loss) excl special items ¹		16	62	(5)
Special items loss (gains) ¹		-	7	39
EBITDA excluding special items ¹		98	139	82
Profit for the period		(17)	24	(88)
Basic EPS (US cents)		(3)	4	(16)
EPS excluding special items (US cents) ¹		(1)	6	(4)
Net debt ¹		2,056	1,916	1,957
Key ratios (%)				
Operating profit excl special items ¹ to sales		1.4	4.8	(0.5)
ROCE ¹ Operating profit excluding special items ¹ to capital employed		1.7	6.7	(0.5)
EBITDA excl special items ¹ to sales		8.4	10.7	7.5
Net debt to EBITDA excl special items ¹		6.1	3.0	5.2
Covenant leverage ratio		6.2	2.8	5.0
Interest cover ¹		4.1	8.4	4.7
Net asset value per share ¹ (US cents)		327	379	299

¹ See published results for detail on special items, the definition of the terms, reconciliations and supplemental information about key ratios.

Cash flow, debt and liquidity

For the quarter, net cash generated was zero while capital expenditure was limited to US\$82 million. Euro and ZAR denominated debt converted at stronger quarter-end exchange rates increased net debt by US\$99 million. At quarter-end liquidity comprised US\$410 million cash on hand and US\$622 million from committed revolving credit facilities.

Net operating assets and sales distribution



Outlook

There has been **pronounced pricing and demand recovery in DP markets**. As of 29 January 2021, the Chinese market price had improved to US\$895/ton, driven by a number of factors including low inventory levels, rebounding textile demand, higher VSF prices and favourable US\$/Renminbi currency movements. A strengthening ZAR/US\$ exchange rate is expected to negate some of the pricing benefits. We are encountering **logistical and production challenges** at our South African DP facilities as a result of Covid. A severe second wave of infections necessitated a prioritisation of oxygen supplies into the health care sector. Consequent restrictions on the procurement and transport of oxygen to the South African mills have resulted in a temporary curtailment of DP production at the Ngodwana Mill in the second quarter.

Underlying packaging and speciality products demand remains resilient as consumer preferences default to more sustainable alternatives. We continue to ramp-up sales and production in North America and Europe following the completion of the Somerset and Maastricht conversions. However, Covid may adversely impact demand for certain non-essential consumer products.

The global resurgence of Covid and associated extended lockdowns and restrictions on economic activity are expected to stall the graphic market recovery, particularly in Europe. A rapid and significant rise in paper pulp costs is expected to reduce margins in this segment. Whilst we have announced selling price increases in most of our markets to mitigate risk, there will be a lag before the benefits of the increases are realised. The recent series of paper machine and mill closures or conversions in the industry are expected to improve the supply/demand balance resulting in a recovery of operating rates in the coming quarter and year.

The strong demand of our packaging and speciality grades combined with the sharp recovery in DP markets support our **strategic focus** as we **transition the business towards higher growth segments**.

Capital expenditure in FY2021 is estimated to be US\$400 million and includes the approximately US\$100 million related to the Saiccor Mill expansion project scheduled to start production during the fourth quarter.

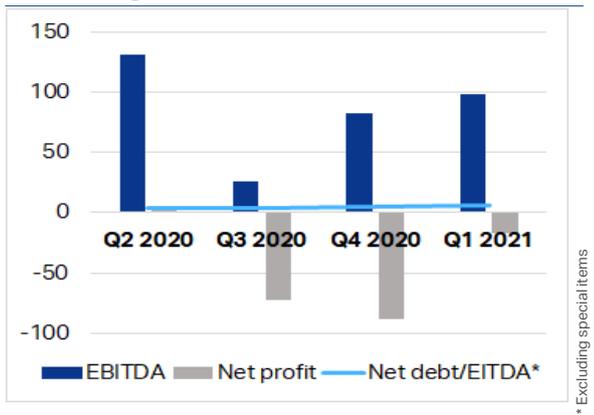
Convertible bonds issued

Sappi Southern Africa Limited issued 5-year convertible bonds with a principal amount of **ZAR1.8 billion** during Q1. The bonds are convertible into ordinary shares of Sappi Limited subject to shareholder approval on 3 February 2021. The net proceeds from the bonds will be used to **fund the remaining capital expenditure required for the expansion of the Saiccor Mill**.

Q2 earnings expectations

Earnings will be tempered by the production curtailments related to oxygen availability at our Ngodwana Mill, global logistical challenges and the negative impact of Covid on our European graphics segment. There are no material annual maintenance shuts planned for the quarter and we anticipate good performance from our packaging and specialities segment. We therefore **expect second quarter EBITDA to improve relative to the first quarter**.

Quarter-on-quarter earnings, profit and debt



Our purpose

Sappi exists to build a thriving world by unlocking the power of renewable resources to benefit people, communities, and the planet.

Our business strategy

Through collaboration and innovation we will grow profitably, using our strength as a sustainable and diversified global woodfibre group, focused on dissolving pulp, graphic, packaging and speciality papers, and biomaterials.

Our strategy demands a clear focus on four key fundamentals:

- Grow our business
- Sustain our financial health
- Drive operational excellence
- Enhance trust

Our sustainability strategy

We will create long-term value for all stakeholders from relevant sustainable woodfibre products and through ongoing improvement in key areas.

Our commitment to sustainability underpins our strategy and is based on being a trusted, transparent, and innovative partner in building a biobased circular economy.

Europe



10 Production facilities
15 Sales offices

Market conditions continued their slow recovery, facilitating a **15% sales volumes improvement** and a doubling of EBITDA relative to the previous quarter.

Profitability was still significantly below the prior year as Covid infections in Europe led to renewed and stricter lockdowns which slowed the rate of economic recovery.

Paper selling prices were under pressure due to historically low pulp prices.

Coated woodfree (CW) and coated mechanical (CM) **sales volumes improved progressively** each month but were still only 86% and 60% respectively of the equivalent quarter last year. A portion of the CM reduction is attributable to the exit of production at the Lanaken Mill. Although domestic CWF volumes rebounded significantly, export markets and CM products were still under severe pressure and global shipping issues added to the challenges. As a result, the region incurred **125,000 tons of commercial downtime**.

The **packaging and specialties markets** were **resilient** and sales volumes increased quarter-on-quarter with the performance of paperboard and other packaging products particularly strong.

Costs were **lower** than the comparable period last year with savings across all major categories.



Berry Wiersum
Chief Executive Officer
Sappi Europe

North America



4 Production facilities
6 Sales offices

The business made an **encouraging start to the financial year** with EBITDA of US\$27 million, which was 8% above the corresponding quarter in the prior year. A faster revival of graphic paper sales, the ramp-up of packaging sales and higher DP pricing contributed to the improvement. The planned Somerset Mill shut was successfully completed.

The **recovery** in the **graphics segment** continued, and sales reached 83% of the corresponding quarter in the prior year. No commercial downtime was required. Although selling prices continued to decline, they are expected to increase in the second quarter due to recently announced price increases.

The packaging and specialties segment expanded further driven by continued **robust demand for packaging grades**, the ramp-up of paperboard production at the Somerset Mill and a **significant improvement in release paper demand**. Packaging and specialties sales volume more than doubled compared to the corresponding quarter in the prior year.

Healthy DP demand led to a 25% increase in sales volumes compared to the previous quarter. The increase in DP selling prices boosted profitability in the segment.

Costs were **well managed** with variable cost savings achieved in energy, wood and chemicals and fixed costs marginally below last year.



Mike Haws
President and Chief
Executive Officer
Sappi North America

Southern Africa



5 Production facilities 6 Sales offices
534,000ha Plantations

The business was impacted significantly by the shift of the **Ngodwana Mill shut** into the current quarter from the third quarter of last year.

DP sales volumes were adversely affected by **shipping and logistical challenges** which resulted in higher inventory at the end of the quarter. While higher US Dollar DP prices partially offset these factors, a stronger ZAR/US\$ exchange rate reduced the benefit from the price increases.

DP sales volumes were 23% below those of last year. As mentioned last quarter, production on **the calcium line** at the Saiccor Mill was temporarily halted during the third and fourth quarters of 2020 due to the Covid outbreak, however the line **was restarted** during the current quarter. The excess inventory mentioned above is expected to be shipped in subsequent quarters as logistical and shipping challenges are resolved.

Demand for containerboard continued to be **resilient** driven by strong demand for export fruit products.

However, sales volumes for uncoated woodfree, newsprint and tissue were lower than last year due to a **sluggish domestic economy** linked to Covid and related lockdowns.

Variable costs were in line with last year. However, cash fixed costs were up by 8% due to the expenses associated with the movement of the Ngodwana Mill maintenance shut and the annual wage increase.



Alex Thiel
Chief Executive Officer
Sappi Southern Africa

Our values As OneSappi, we do business safely, with integrity and courage, making smart decisions that we execute with speed.

Sappi and COVID-19: Supplying consumers with useful essential goods

Our products and services continue to add value to people's lives. As a business in the forestry, pulp and paper industry, supplying chemicals, pulp, paper and packaging material for food products, cleaning, hygiene products and medical and hospital supplies – amongst a host of other essential services – Sappi plays a crucial role in ensuring that these essential goods reach the consumer. Our supply chain customers need the required raw materials and products from Sappi in order to produce and deliver to the broader public.

Dissolving pulp

Products produced:

Dissolving pulp, a sustainable raw material used in multiple products that meet critical needs of people around the globe every day.

Consumer end uses:

Products related to fashion and food, household comfort, personal beauty and hygiene, as well as a healthy lifestyle. Examples include pharmaceuticals (tablets), non-wovens (wipes, feminine hygiene products), diapers and food packaging products.

Casting and release papers

Products produced:

Casting and release papers, surface textures for synthetic leathers, coated materials, films and laminates.

Consumer end uses:

Used to impart texture and gloss to commonly used items, including clothing and foot apparel, decorative laminates, automotive interiors/ exteriors and more.

Packaging and speciality papers

Products produced:

Packaging and speciality papers provide an extensive range of innovative products and services, increasing the attractiveness, efficiency, effectiveness and profitability of brands.

Consumer end uses:

End products in different segments, including flexible packaging and labels for food, and non-food (eg cleaning and medical) products, paperboard for food products and COVID-19 test kit packaging, pet food bags, as well as containerboard for corrugated boxes to transport goods.

Biomaterials

Products produced:

Biomaterials, extracting more value from trees in new and adjacent markets.

Consumer end uses:

Mostly used to provide a natural resource solution as an alternative to fossil-based composites.

Graphic papers

Products produced:

Graphic papers, consisting of coated, coated mechanical, uncoated and newsprint paper.

Consumer end uses:

Communication and brand building, with end uses that include magazines, newsprint, medical brochures, pamphlets and posters for public info and health campaigns, catalogues and direct mail.

Forestry

Products produced:

Forestry – R&D facilities, nurseries, planting, harvesting and forestry management services.

Consumer end uses:

Sappi requires the woodfibre from our trees to manufacture essential products required by consumers. The company employs worldclass scientists, engineers and foresters focused on innovative, sustainable products.

