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Media release

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Sappi continues recovery in results for second financial quarter 2021

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: "I am pleased with the steady recovery from the ongoing challenges of the Covid-19 pandemic. EBITDA continued to improve quarter-on-quarter from a low of US$26m in our third quarter of 2020 through US$98m in the previous quarter to US$112 for the current quarter, with further improvement expected for our third quarter."

He continued: "The North American and South African regions recorded strong improvements in profitability. This was in contrast to Europe where extended lockdowns and restrictions on economic activity hindered the performance. Covid-19 also severely affected global shipping and container availability, which impacted sales volumes in a number of product categories.

Our comprehensive Covid-19 action plan is fully entrenched in all of our operations and employee safety remains a top priority. The rate of employee and contractor infections reduced significantly during the quarter across all regions and as a consequence there was minimal impact on mill operations."

Looking forward, Binnie stated: "Given the favourable market conditions for DP and packaging and speciality papers, offset partially by the weak graphic paper demand and global logistical challenges, we expect the third quarter EBITDA to improve relative to the second quarter. However, earnings in the European business will be lower due to rising pulp costs."

Financial summary for the quarter

- EBITDA excluding special items US$112 million (Q2 FY20 US$131 million)
- Net debt US$2,070 million (Q2 FY20 US$1,879 million)
- Loss for the period US$23 million (Q2 FY20 Profit of US$2 million)
- EPS excluding special items -1 US cent (Q21 FY20 4 US cents)

For the quarter, a strong packaging and specialities performance combined with solid results from dissolving pulp (DP) more than offset the weak demand and margin squeeze in graphic paper.

A positive highlight for the quarter was the continued rapid recovery of DP markets, with Chinese market prices at the highest levels since May 2012. The key factors supporting the positive sentiment in the sector include continued tight DP supply, low viscose staple fibre (VSF) inventory levels throughout the textile value chain, improved apparel retail demand in the US and Asia which favourably impacted all textile fibre prices, higher paper pulp prices and a continued weaker US$/Renminbi exchange rate.

Sales volumes in the packaging and specialities segment increased by 25% compared to last year due to a further ramp-up of board products in North America and strong containerboard demand in South Africa. While demand for most categories in Europe was positive, some non-essential products were affected by Covid-19 related lockdowns.

The steady rate of recovery in graphic paper demand over the last two quarters slowed and sales volumes in the segment were 17% lower than the same quarter last year. Capacity closures enabled Sappi to gain market share but pressure on input costs, particularly pulp, and rising delivery charges impacted profitability negatively.

Across all regions logistics issues, including congested networks, shipping line schedule disruptions, lack of containers and vessel space constraints impacted regular customer deliveries, saw a rise in delivery costs and higher freight rates and prevented Sappi from achieving the benefits of improved export market demand, in particular from Europe and South Africa.

In a positive development, new leverage covenants have been agreed with the banking group as Sappi exits the financial covenant suspension period in September 2021. The new covenants will start at 5.50 for December 2021 and reduce quarterly to 4.25 by March 2023.

Outlook

DP market indicators remain positive and demand from our customers currently exceeds our capacity. As at 30 April 2021 the Chinese DP market price was US$1,100 per ton. However, pricing for VSF and other textile fibres has reduced in recent weeks. Much of the benefit from the material recovery of DP prices in the second quarter will be realised in subsequent quarters due to the lag in contractual pricing. A prolonged stronger ZAR/US$ exchange rate will temper some of the pricing benefits for the South African DP segment.

The underlying demand in the packaging and specialities segment in North America and South Africa remains robust and our focus is shifting to improving margins through machine efficiencies, mix optimisation and price realisation. However, as long as there is uncertainty in Europe regarding the continuing lockdowns due to Covid-19, the sluggish economic activity in this region is expected to impact demand for non-essential consumer products.

Graphic paper markets remain challenging and demand is still well below the long term pre-Covid-19 trend levels. The persistent weak demand in Europe is likely to keep the market in oversupply and diminish pricing power. The lag in sales price increase realisation in combination with rising raw material and logistics costs could exacerbate the margin squeeze even further in that region.

Ongoing worldwide logistical challenges of container shortages, port congestion and availability of vessel capacity pose a risk to export volumes from all regions in the third quarter.

Capital expenditure in FY2021 is estimated to be US$400 million and the Saiccor Mill expansion project is expected to commence production in the fourth quarter. Liquidity headroom within the group is good. The successful reinstatement of our leverage covenants as described earlier provides a comfortable level of headroom when covenant measurement commences again from December 2021.

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.