

# FY22 Q 2 Results — the period ended March 2022

## Highlights for the quarter

<b>EBITDA</b> excl special items <b>US\$337 million</b> Q2FY21 US\$112 million	<b>Profit</b> for the period <b>US\$188 million</b> Q2FY21 Loss US\$23 million	<b>Net debt</b> <b>US\$1,793 million</b> Q2FY21 US\$2,070 million	<b>EPS</b> excl special items <b>35 US¢</b> Q2FY21 loss 1 US¢
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	US\$ million	Quarter ended			Half-year ended	
		Mar 2022	Mar 2021	Dec 2021	Mar 2022	Mar 2021
Key figures	Sales	1,858	1,284	1,697	3,555	2,447
	Operating profit (loss) excl special items <sup>1</sup>	259	31	161	420	47
	Special items loss (gain) <sup>1</sup>	29	12	(8)	21	12
	EBITDA excluding special items <sup>1</sup>	337	112	240	577	210
	Profit (Loss) for the period	188	(23)	123	311	(40)
	Basic EPS (US cents)	33	(4)	22	55	(7)
	EPS excluding special items (US cents) <sup>1</sup>	35	(1)	20	55	(2)
	Net debt <sup>1</sup>	1,793	2,070	1,917	1,793	2,070
Key ratios (%)	Operating profit excl special items <sup>1</sup> to sales	13.9	2.4	9.5	11.8	1.9
	ROCE <sup>1</sup> Operating profit excluding special items <sup>1</sup> to capital employed	25.8	3.2	16.5	20.9	2.5
	EBITDA excl special items <sup>1</sup> to sales	18.1	8.7	14.1	16.2	8.6
	Net debt to EBITDA excl special items <sup>1</sup>	2.0	6.5	2.8	2.0	6.5
	Covenant leverage ratio	2.0	6.7	2.9	2.0	6.7
	Interest cover <sup>1</sup>	9.5	3.7	6.7	9.5	3.7
	Net asset value per share <sup>1</sup> (US cents)	417	345	353	417	345

## Commentary

EBITDA trebled compared to prior year.

Tight global paper markets were the principal factor behind the quarter's success and enabled the implementation of higher selling prices which offset extraordinary cost inflation.

Pulp sales volumes increased 9% on the back of robust demand and improved logistics in South Africa.

The hardwood dissolving pulp (DP) market price rebounded during the latter part of the quarter following positive momentum in global commodity markets including viscose staple fibre (VSF), cotton and polyester

Rising global paper pulp prices, driven by supply constraints due to unplanned production downtime, provided further support for both DP and BCTMP pricing.

A significant recovery in demand combined with a reduction in supply, ongoing logistical challenges, and a prolonged labour strike at Finnish paper mills led to an unprecedented global shortage of graphic paper.

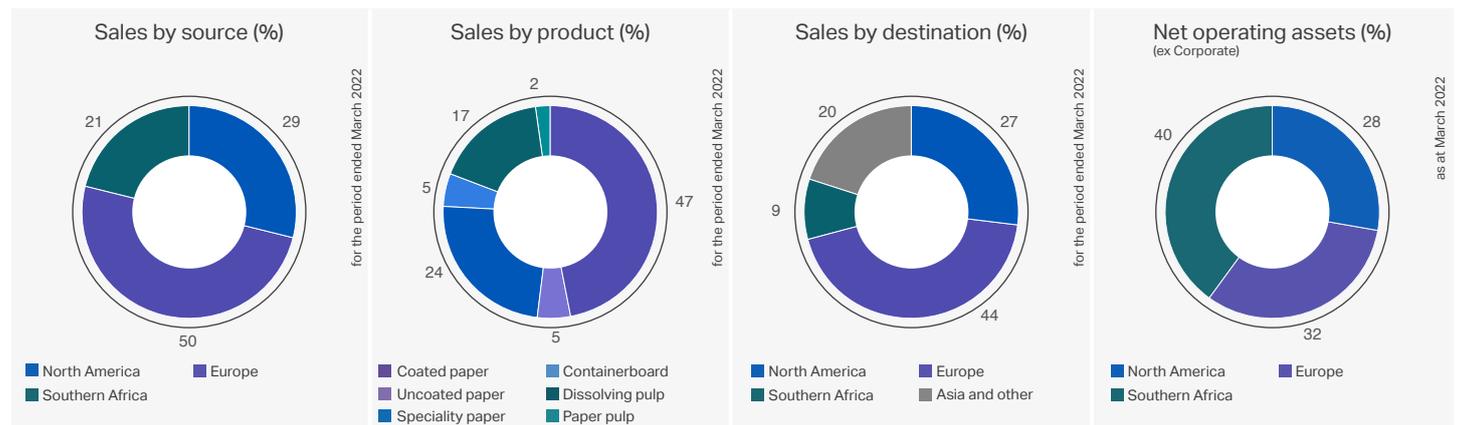
Driven by robust global demand and renewed volume growth in Europe, packaging and speciality papers sales volumes grew 13% year-on-year.

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

## Debt reduction

Progress towards our FY2022 strategic objective to significantly reduce net debt was bolstered by the strong cash generation during the quarter. Net debt of US\$1,793 million was US\$277 million less than the prior year and is reflective of the substantially improved profitability of the group.

## Net operating assets and sales distribution



## Outlook

Markets across all of our key product segments remain **encouraging** and selling prices continued to rise in April.

Continuing **tight graphic paper markets** provide an opportunity to maintain profitability in Europe and North America.

The demand in the **packaging and speciality papers** segment remains **robust**.

**DP market indicators remain positive** despite operating curtailments in April within the textile value chain in China due to another wave of Covid-19 infections. The differential between cotton and VSF prices continues to be elevated, which should support DP pricing.

Subsequent to quarter-end, the **market price for hardwood DP increased sharply** to US\$1,100 per ton. The benefit of the improved DP pricing will be realised in Q4. Q3 sales volumes will be lower than Q2 due to scheduled maintenance shuts with an estimated US\$50 million impact on profitability.

Extreme storms in KwaZulu-Natal, South Africa, in early April led to widespread flooding and destruction of infrastructure. Saiccor, Tugela and Stanger Mills, and the export warehouse facilities at the Durban port, were impacted; production was temporarily halted. We suffered **no material damage**.

Although the Port of Durban officially resumed operations, export deliveries could be negatively impacted for some time due to damaged access roads, congestion and limited availability of vessel space. We anticipate that there will be **no material impact on EBITDA for the year**. However, after external insurance proceeds, the estimated net loss of approximately US\$28 million will be reflected as a special item expense in the third quarter.

An inflationary macroeconomic environment continues to exert pressures on our cost base across all regions. Geopolitical volatility within Europe poses a risk to energy and natural gas supplies in the region. We anticipate delivery, chemicals and energy costs to increase further. **To counteract the cost inflation, we will continue to focus on improved operating efficiencies, price and mix management.**

Capital expenditure for FY22 is estimated to be **US\$395 million**.

The group is in a strong position to **maintain recent momentum**. The underlying Q3 EBITDA should be consistent with that of Q2, subject to the impacts of annual maintenance shuts.

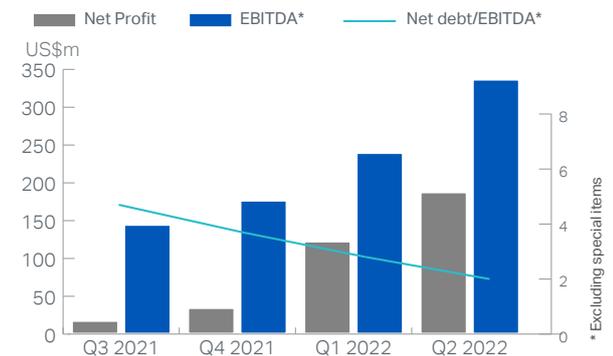
## Cash flow

**Net cash generated for the quarter was US\$105 million, compared to a utilisation of US\$53 million in the prior year.** This increase was due to significantly improved operating performance.

## Covenant improvement

In terms of the relevant banking facilities, the covenant leverage ratio reduced to 2.0 times at the end of March 2022; a considerable improvement on the 6.7 times last year and 2.9 times in the prior quarter.

## Q-on-Q earnings, profit & 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  
14 Sales offices

Despite geopolitical uncertainty and significant input cost inflation, the **European business turned around** with a strong second quarter.

We suspended sales into **Russia and Belarus**. Tight global markets will enable us to place the volumes elsewhere. Purchases of raw materials from this region were negligible and we secured alternative sources of supply.

The business was exposed to **energy and pulp inflation and volatility**. Similarly, chemical, pulp and delivery costs escalated substantially. A series of selling price increases and energy surcharges were required to offset the significantly higher costs.

The **graphic paper market tightened** further. Sales volumes in the segment were 17% higher than the prior year with **all assets running at full operating rates**. Customer demand exceeded our supply.

The packaging and speciality papers business experienced **strong sales growth** of 29%. Robust demand for containerboard, self-adhesives and consumer packaging, as well as a faster than expected ramp-up of sales volumes of label papers from Gratkorn Mill, contributed to the improvement.

As a reflection of the extraordinary inflationary environment, variable costs increased 51%.

Fixed costs increased 19% due to bad debt provisions related to Russia and personnel cost increases.



Marco Eikelenboom  
Chief Executive Officer  
Sappi Europe

North America



4 Production facilities  
6 Sales offices

Tight markets and significantly higher selling prices across all product segments contributed to another **excellent quarter**.

**Cost inflation and ongoing logistical supply chain challenges** remained as noteworthy headwinds for the business.

**Strong demand for graphic paper** combined with reduced supply maintained favourable market dynamics. Sales volumes in the segment were slightly higher year-on-year, with volumes constrained by production capacity and low inventory levels. Good progress in product mix optimisation and selling price increase realisation facilitated substantial margin improvement in the segment.

The **packaging and speciality papers business continued to strengthen**; year-on-year sales volume grew 9%. Product mix improvements and price increase realisation is driving margin growth.

Pulp segment sales volumes were 4% higher. **Demand for Sappi Verve remained strong**. Erratic vessel and container availability continued to create logistical challenges and inventory levels remain elevated. A combination of higher costs and lower net selling prices resulted in quarter-on-quarter margin squeeze.

**Extraordinary cost inflation across all input categories** lifted year-on-year variable costs by 14%.

Fixed costs were well managed; 3% growth was primarily due to annual personnel increases.



Mike Haws  
President and Chief  
Executive Officer  
Sappi North America

Southern Africa



5 Production facilities 6 Sales offices  
394,000ha Plantations

The business was impacted by **significant cost increases**, lower net DP selling prices and production challenges at Saiccor Mill.

**Demand for Sappi Verve remained robust** and improved conditions at the Durban port and the regular breakbulk vessel facilitated a 9% quarter-on-quarter increase in sales volumes. Unplanned Eskom power outages, raw material supply disruptions and equipment challenges disrupted Saiccor Mill's operational stability and led to a 57,000 ton shortfall in Sappi Verve production. Excess inventory reduced to 44,000 tons. Good progress on the Saiccor Mill expansion ramp-up allowed for the earlier than planned conversion of the calcium cooking line to magnesium.

Expanding fruit export markets and constrained paper imports into South Africa contributed towards **healthy market dynamics for packaging paper**. Packaging sales volumes were 1% below the prior year, constrained by production capacity and lower inventory levels following a strong first quarter.

Office and newsprint paper markets tightened considerably due to the global shortage. **Customer demand exceeded supply for all paper categories**.

Year-on-year variable costs rose 23% due to inflation across all categories.

Fixed costs increased by 10% primarily due to the Saiccor Mill expansion, additional personnel costs, maintenance and silviculture expenses.



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.

### 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.



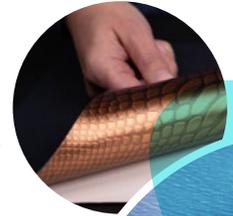
### Casting and release papers

**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.



### Timber

**Products produced:**

Timber – R&D facilities, nurseries, planting, harvesting, Geographic Information Systems (GIS) 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.

