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## Media Release

Johannesburg, 01 August 2019

### Sappi results for third financial quarter ended June 2019

#### **Financial summary for the quarter**

- EBITDA excluding special items US\$118 million (Q3 2018 US\$155 million)
- Profit for the period US\$8 million (Q3 2018 US\$51 million)
- EPS excluding special items 4 US cents (Q3 2018 10 US cents)
- Net debt US\$1,728 million (Q3 2018 US\$1,603 million)

Commenting on the result, Sappi Limited Chief Executive Officer, Steve Binnie said: “Although our third quarter is traditionally lower due to northern hemisphere summer holidays, the results for the quarter were under pressure. We faced challenging market conditions across all our major product categories, but in particular from sluggish graphic paper demand in Europe and North America which necessitated production downtime and weak dissolving wood pulp (DWP) prices due to soft viscose staple fibre (VSF) markets. In addition, annual maintenance shuts which impact production and sales volumes were completed at Ngodwana, Saiccor and Cloquet Mills.”

“Notwithstanding a tough quarter, we continued to focus on executing our strategy to diversify our product portfolio into higher margin segments to position us for future growth. The recent projects to increase capacity at each of our DWP mills and convert capacity at Somerset and Maastricht Mills towards packaging boosted sales volumes in each of these segments during the quarter, thereby lessening the impact of particularly weak graphic paper markets.”

The group earnings excluding special items decreased from US\$155 million to US\$118 million, with profit for the period decreasing from US\$51 million to US\$8 million due to lower operating profit and a US\$9 million once-off finance cost charge for the refinancing of the 2022 bonds.

VSF markets were under significant pressure due to excess capacity and weak textile exports from China. This impacted VSF producer margins and together with low paper pulp prices reduced DWP prices to their lowest level in a decade.



Packaging and specialities papers markets were mixed across our regions, with demand for packaging papers offsetting weakness in the consumer speciality grades. The ramp up of commercial volumes from both Somerset and Maastricht Mills proceeded according to plan, although profitability was constrained by the product qualification process as well as lower average selling pricing during the period.

In Europe, Sappi gained significant market share in coated woodfree paper as competitors looked to exit the market. Higher average net selling prices and purchased pulp prices that declined throughout the quarter partially offset the impact of weak graphic paper sales into the publishing sector in Europe. Volumes in the packaging and specialities papers business were flat with stable packaging papers demand offsetting weakness in consumer speciality papers products. The conversion of Lanaken Mill PM8 from coated mechanical to coated woodfree paper was completed during the quarter.

The North American business remained under pressure. Weak graphic paper markets, lower DWP prices, the annual maintenance shut at Cloquet Mill and the continued ramp-up for Somerset Mill PM1 all weighed on margins. Commercial sales volumes for Somerset Mill PM1 paperboard grades were up 38% on the prior quarter and overall packaging and speciality papers volumes were 88% higher than the prior year.

The Southern African results were impacted by lower average US\$ pricing for DWP and a delayed start to the citrus season which impacted containerboard sales volumes.

Looking towards the rest of the year, Binnie indicated that "Given the current weak market conditions for graphic paper, DWP pricing pressure from oversupplied VSF markets and global economic uncertainty related to trade wars, our fourth quarter profitability will likely be below that of the prior year."

### **Outlook**

DWP pricing is expected to continue to be under pressure whilst VSF producers are impacted by low margins, paper pulp prices remain low and uncertainty exists in textile markets as a result of the US/China trade tensions. Sappi's DWP sales volumes are expected to stay healthy and the expanded production capacity at Saiccor, Ngodwana and Cloquet Mills will be utilised to meet customer demand.

Packaging and specialities papers markets show good growth prospects; however, growth has slowed in some segments due to general economic conditions. Raw material prices, particularly paper pulp, are declining and offer some relief for margins. Demand for South African packaging papers products is expected to be strong going into the local spring. The ramp-up and product mix optimisation process continues at Somerset and Maastricht Mills as qualification and customer acceptance is completed. As mentioned in the results announcement, the acquisition of Matane Mill will increase the pulp integration for our North American and European packaging papers businesses, and lower costs going forward.

Persistent weakness in graphic paper markets will require further production downtime in the coming quarter. Sufficient capacity is expected to be shut or converted within the industry, thereby allowing operating rates and margins to recover in future periods. Lower paper pulp prices are offering some relief, however paper prices in both US and Europe have declined due to current market conditions.



Capital expenditure for the remainder of the year is expected to be approximately US\$200 million as Sappi continue the transition to growing and higher margin segments. Major projects currently underway include the 110,000 tons per year expansion at Saiccor Mill and the final commissioning of Lanaken Mill PM8 after the conversion from coated mechanical to coated woodfree paper. No other major projects are currently committed and therefore we expect annual capex levels to reduce over the next two years.

ENDS

**The full results announcement is available at [www.sappi.com](http://www.sappi.com)**

There will be a conference call to which investors are invited. Full details are available at [www.sappi.com](http://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*
- *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, 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.*