

## Results for Q3 FY20 – the period ended June 2020

**EBITDA** (excl special items)

**US\$26 million**

Q3 FY19 US\$118 million

**Loss** (for the period)

**(US\$73 million)**

Q3 FY19 Profit US\$8 million

**Net debt**

**US\$1,977 million**

Q3 FY19 US\$1,728 million

**Severe impact from COVID-19 on profitability**

### Commentary

The economic effect of the **Covid-19 pandemic**, related lockdowns, changes in consumer behaviour and logistical challenges, had a **severe impact** on the business during the quarter.

The packaging and specialities business continued to grow; **sales volumes increased by 11% with EBITDA contribution increasing 109%**.

Dissolving wood pulp (DP) demand turned down rapidly as, globally, retailers shut in response to the pandemic. In response, we curtailed 93,000 tons of production, and switched some capacity at Ngodwana and Cloquet to paper pulp production.

Covid-19 related lockdowns and the corresponding economic slowdown had a **serious deleterious impact on graphic paper demand** as advertising spend reduced and printers halted production; pricing declined moderately in most markets. We implemented 490,000 tons of commercial downtime across the group.

As indicated in the Covid-19 update issued on the 30th March 2020, we will not be providing a profit forecast or guidance as the potential impact of the virus cannot be estimated reliably.

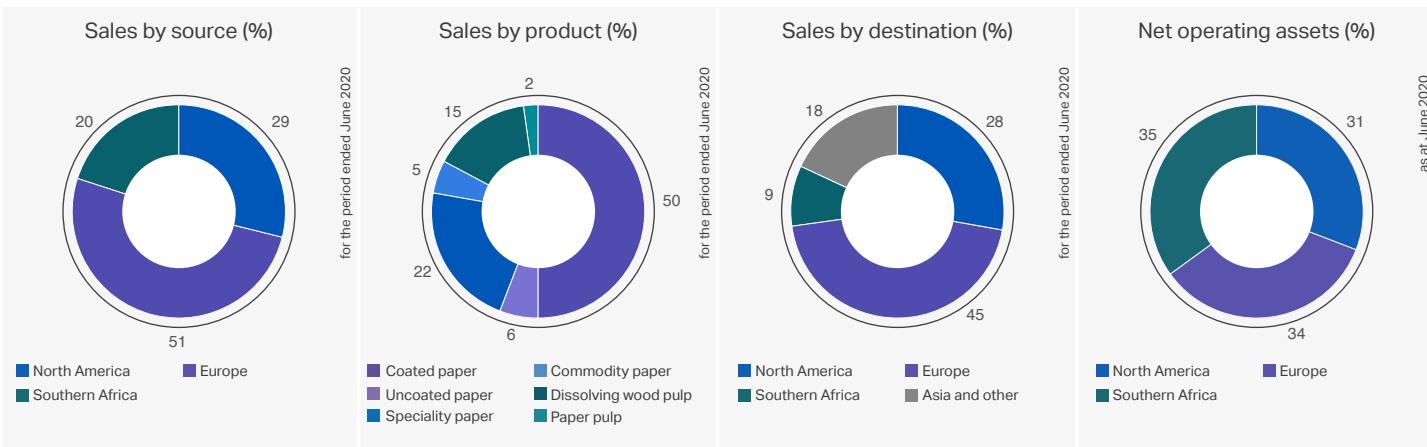
### Focus on liquidity and cash flow preservation

Our focus on preserving liquidity and cash flow necessitated cost containment initiatives, a reduction in capital expenditure, delays to major annual maintenance shuts, furloughing staff where possible and optimising working capital. Net cash utilised increased US\$50 million compared to the equivalent quarter last year due to lower cash generation from operations and increased finance costs, offset by lower capital expenditure.

	US\$ million	Quarter ended			Nine months ended	
		Jun 2020	Jun 2019	Mar 2019	Jun 2020	Jun 2019
Sales	907	1,371	1,308		3,517	4,292
Operating profit excl special items <sup>1</sup>	(52)	48	52		62	293
Special items (gains) losses <sup>1</sup>	20	2	29		56	7
EBITDA excluding special items <sup>1</sup>	26	118	131		296	502
Profit for the period	(73)	8	2		(47)	161
Basic EPS (US cents)	(13)	1	–		(9)	30
EPS excluding special items (US cents) <sup>1</sup>	(10)	4	4		(1)	33
<b>Net debt<sup>1</sup></b>	<b>1,977</b>	<b>1,728</b>	<b>1,879</b>		<b>1,977</b>	<b>1,728</b>
Operating profit excl special items <sup>1</sup> to sales	(5.7)	3.5	4.0		1.8	6.8
ROCE <sup>1</sup> Operating profit excluding special items <sup>1</sup> to capital employed	(5.6)	5.2	5.4		2.3	10.7
EBITDA excl special items <sup>1</sup> to sales	2.9	8.6	10.0		8.4	11.7
Net debt to EBITDA excl special items <sup>1</sup>	4.1	2.4	3.3		4.1	2.4
Covenant leverage ratio	4.0	2.4	3.1		4.0	2.4
Interest cover <sup>1</sup>	6.2	9.6	7.5		6.2	9.6
Net asset value per share <sup>1</sup> (US cents)	326	375	335		326	375

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

### Net operating assets and sales distribution



## Outlook

We expect the **slow recovery** in our markets to progress in the coming quarter and estimate sales volumes of 75% and 70% of prior year levels for dissolving wood pulp (DP) and graphic papers respectively.

Current **liquidity headroom** in the group **remains good**, with cash deposits at the end of the quarter of US\$190 million and committed revolving credit facilities of approximately US\$503 million. As previously communicated, due to the uncertainty regarding short-term trading conditions and to ensure we **have adequate liquidity for the duration of this difficult period**, we negotiated the suspension of our credit facility financial covenants from June 2020 to March 2021. This suspension is subject to customary conditions for this kind of relief, which only apply during the suspension period, and include no dividend payments, limitations on incurrence of indebtedness, maximum capex spending limits, a minimum liquidity requirement and no M&A activity without prior bank approval.

DP demand appears to have reached a low point in late May; subsequently we have seen a steady recovery. We will continue to make some additional paper pulp at Cloquet for internal use, foregoing less profitable DP sales. **Pricing remains under pressure** as viscose staple fibre pricing and operating rates remain at depressed levels. Logistics problems at the Durban port, and a reduction in the number of container ships docking in South Africa, partially as a result of port issues, are hampering a further recovery in sales volumes.

The **packaging and specialities segment continues to grow**, and with much of our volumes sold into the food and hygiene sector, should be more resilient during the crisis. As lockdowns ease in various parts of the world and various industries recover, we expect demand for products such as release liner and digital imaging to accelerate and qualification of new products to resume.

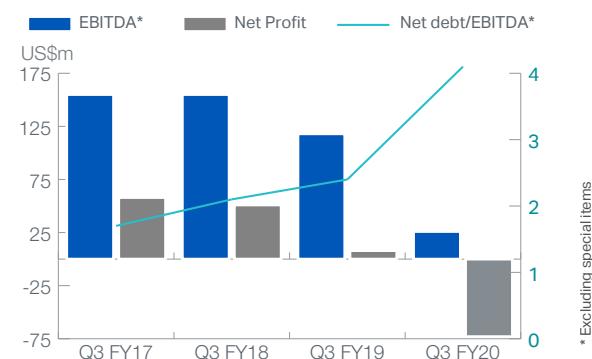
We believe that the decline in graphic paper demand in Europe and the US due to Covid-19 reached a low in June, and a slow recovery is underway as economies open and retail and advertising activity increase. Significant capacity reduction in the US and Europe by our competitors, along with our own paper machine closures at Westbrook and Stockstadt mills, should result in improved operating rates in the new financial year.

As a result of the force majeure declaration at the Saiccor expansion project, completion is now estimated in the third quarter of FY2021. Work on the expansion recommenced fully in July. All remaining material discretionary projects and major maintenance shuts have been moved out as late as practically possible. As a result, capital expenditure in the last quarter is expected to be approximately US\$110 million.

## Our approach to COVID-19

- Sappi's approach to the outbreak of Covid-19 is guided by our values and purpose.
- In response to the impact that the pandemic is having on people's lives, **we have developed a comprehensive Covid-19 action plan where our priority remains the health and safety of our employees and their families.**
- Our mills and other facilities **apply stringent guidelines to mitigate the spread of Covid-19**. This ensures our operations continue to operate in a **safe and uninterrupted manner** where demand for our products permit.
- We continue to work closely with our customers and suppliers as we systematically increase activity and output in response to market demand and we support our local communities to mitigate the impact of the pandemic and the ensuing socio-economic consequences.

## 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

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

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 — Q3**

10 Production facilities  
14 Sales offices

Lockdown restrictions across the globe, and the related economic impacts, led to **significant declines in graphic paper demand across Europe and in key export markets.**

Despite areas of **strength in packaging and specialities**, EBITDA excluding special items slipped into a loss.

**Coated paper demand was particularly weak;** market volumes in Europe declined 47% and 35% for coated woodfree and mechanical papers respectively. Production was curtailed 369,000 tons to match demand and reduce inventory levels. Average quarter-on-quarter selling prices held steady; variable costs increased slightly due to higher softwood pulp prices.

**Certain categories of packaging and specialities paper were unaffected by Covid-19**, including food and hygiene-related packaging. Other products in non-essential and luxury categories experienced a significant drop in demand which, along with the fire at PM3 at Alfeld, contributed towards sales volumes that were 4% below those of last year. Average net sales prices declined slightly slower than the reductions in variable costs, and along with improved product mix, drove an improvement in overall profitability for the segment despite the lower sales volumes.

Year-on-year: Driven by lower pulp, latex and wood costs, Euro denominated variable costs were 6% lower. A reduced headcount and temporary unemployment contributed to a 13% reduction of fixed costs.



Berry Wiersum  
Chief Executive Officer  
Sappi Europe

**North America — Q3**

4 Production facilities  
6 Sales offices

**Strong sales volume growth in the packaging and specialities segment** was insufficient to offset the unprecedented reduction in demand for graphic paper and dissolving pulp which arose from the Covid-19 pandemic. This resulted in an EBITDA excluding special items loss for the quarter of US\$7 million.

**Graphic paper sales volumes declined 43%** compared to the equivalent quarter last year, impacted by the economic lockdown in the US and the concomitant reduction in print advertising. Commercial downtime of 107,000 tons was implemented in the quarter. Pricing was adversely impacted by the weak demand, with prices 8% below last year's.

**Packaging and specialities volumes grew 67% year-on-year**, with strong growth in both the coated one side and paperboard packaging products. Average net **selling prices for paperboard continue to improve** as product mix shifts towards the higher value products.

**Casting Release volumes were negatively impacted** by lockdowns in China, Italy, India and Brazil.

**Lower DP demand** resulted in additional paper pulp production at Cloquet. Despite the additional production, approximately 17,000 tons of downtime was necessary. **Average sales prices were 26% below** those of the prior year.

Variable costs were 10% lower than last year. Fixed costs declined 14% with savings in personnel costs from the furloughing of some employees and SG&A savings the main contributors.



Mike Haws  
President and Chief  
Executive Officer  
Sappi North America

**Southern Africa — Q3**

5 Production facilities  
6 Sales offices  
390,000ha Plantations

While Covid-19 had relatively little impact on the packaging sales volumes, **DP and other paper products experienced significantly weaker demand**, which impacted sales and profitability in the quarter. The postponement of the Ngodwana, Tugela and Saiccor annual maintenance shuts, weaker Rand/US Dollar exchange rate and lower input costs were mitigating factors.

**DP sales volumes** were **21% below** those of the prior quarter and necessitated 76,000 tons of commercial downtime. **US\$ sales prices declined 3%** quarter-on-quarter; however, a weaker US\$/ZAR exchange rate improved the effective Rand prices.

**Packaging and specialities volumes and prices were flat** year-on-year. The shift of the Ngodwana shut, which allowed an additional 30,000 tons to be produced, and lower variable and fixed costs contributed to an improved result for this segment.

**Newsprint and uncoated woodfree volumes were severely impacted** by the lockdown in South Africa, declining by more than 60% year-on-year.

Variable costs declined 12% year-on-year, driven mainly by lower wood, chemicals and energy costs.

Fixed costs reduced by 11% over the same period, mainly as a result of the postponement of scheduled annual maintenance shuts at both Ngodwana and Saiccor to the next financial year.



Alex Thiel  
Chief Executive Officer  
Sappi Southern Africa

## 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.

### 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.

### 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.

### 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.

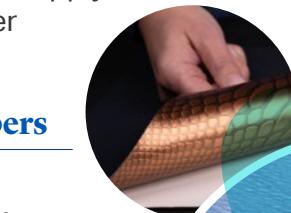
### Biomaterials

#### 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.



### 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.

