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Media release

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Sappi announces financial results for third quarter; continues to respond to impact from Covid-19

Covid-19

Commenting on the impact of Covid-19, Sappi Limited Chief Executive Officer, Steve Binnie said: "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.

During the quarter we continued to focus on the preservation of liquidity and cash flow through cost containment initiatives, a reduction in capital expenditure, delays to major annual maintenance shuts, furloughing of staff where possible and a focus on optimising working capital.

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."

Q3 financial results

Turning to the results for the third quarter, he stated: "The overall economic effect of the Covid-19 pandemic and related lockdowns, changes in consumer behaviour and logistical challenges had a severe impact on the business in the quarter.

Previously weak graphic paper and dissolving pulp (DP) markets were further affected by significant declines in demand and lower sales prices. Our packaging and specialities business increased sales volumes during the quarter and has proven resilient in the current difficult economic circumstances. This segment continues to support our strategy to diversify the group's product portfolio into higher margin and growing segments."

Financial summary for the quarter

- Severe impact from Covid-19 on profitability
- EBITDA excluding special items US$26 million (Q3 2019 US$118 million)
- Loss for the period US$73 million (Q3 2019 Profit of US$8 million)
- Net debt US$1,977 million (Q3 2019 US$1,728 million)
- EBITDA from packaging and specialities segment increases 109%

For the quarter dissolving pulp (DP) and graphic paper sales volumes were 29% and 40% lower respectively. In response, a number of cost containment initiatives were implemented which, along with a positive currency movement, resulted in fixed costs being US$67 million less than the equivalent quarter last year. Consequently, the group generated EBITDA excluding special items of US$26 million compared to US$118 million in the equivalent quarter last year, which led to a decline in profitability and a loss of US$73 million for the quarter.

The growth of the packaging and specialities segment continued, with sales volumes increasing by 11%, which combined with lower input costs and delayed annual maintenance shuts at Ngodwana and Tugela Mills offset some lower selling prices.

The DP segment experienced a rapid downturn in demand as retail stores globally were shut in response to the Covid-19 pandemic and clothing sales were particularly hard hit. This led to a chain reaction throughout the supply chain as orders were cancelled. There were some volume gains in the Chinese market which partially offset greater volume reductions from our major customers. In response to the lower demand, curtailment was taken and some production was switched at Ngodwana and Cloquet Mills from dissolving pulp to paper pulp for internal consumption as well as external sales.

The lockdowns and the corresponding economic slowdown had a serious impact on graphic paper demand. Many companies including retailers and consumer related businesses reduced advertising spend and printers halted production. This led to significant declines in sales volumes across Europe and in key export markets. Despite areas of strength in packaging and specialities, EBITDA for the region slipped into a loss for the quarter.

In North America, 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 crisis.

While Covid-19 had relatively little impact on the packaging sales volumes in the South African business, 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 Mills annual maintenance shuts, weaker Rand/US Dollar exchange rate and lower input costs were mitigating factors. Newsprint and uncoated woodfree volumes were severely impacted by the lockdown in South Africa, declining by more than 60% year-on-year.

Outlook

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

Demand for DP appears to have reached a low point in late May. Subsequently we have seen a steady recovery in demand. We will continue to make some additional paper pulp at Cloquet Mill for internal use, foregoing some 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 in Cape Town, are currently 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 Mill 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.

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 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 cyclicality, 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*
- *the COVID-19 pandemic*
- *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.