

Q4 FY17 financial results

16 November 2017



Steve Binnie

Chief Executive Officer
Sappi Limited

Forward-looking statements and Regulation G

○ 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 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 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, 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.

○ Regulation G disclosure

Certain non-GAAP financial information is contained in this presentation that management believe may be useful in comparing the company's operating results from period to period. Reconciliation's of certain of the non-GAAP measures to the corresponding GAAP measures can be found in the quarterly results booklet for the relevant period. These booklets are available on our website: <https://www.sappi.com/quarterly-reports>.

Summary



Highlights

FY17

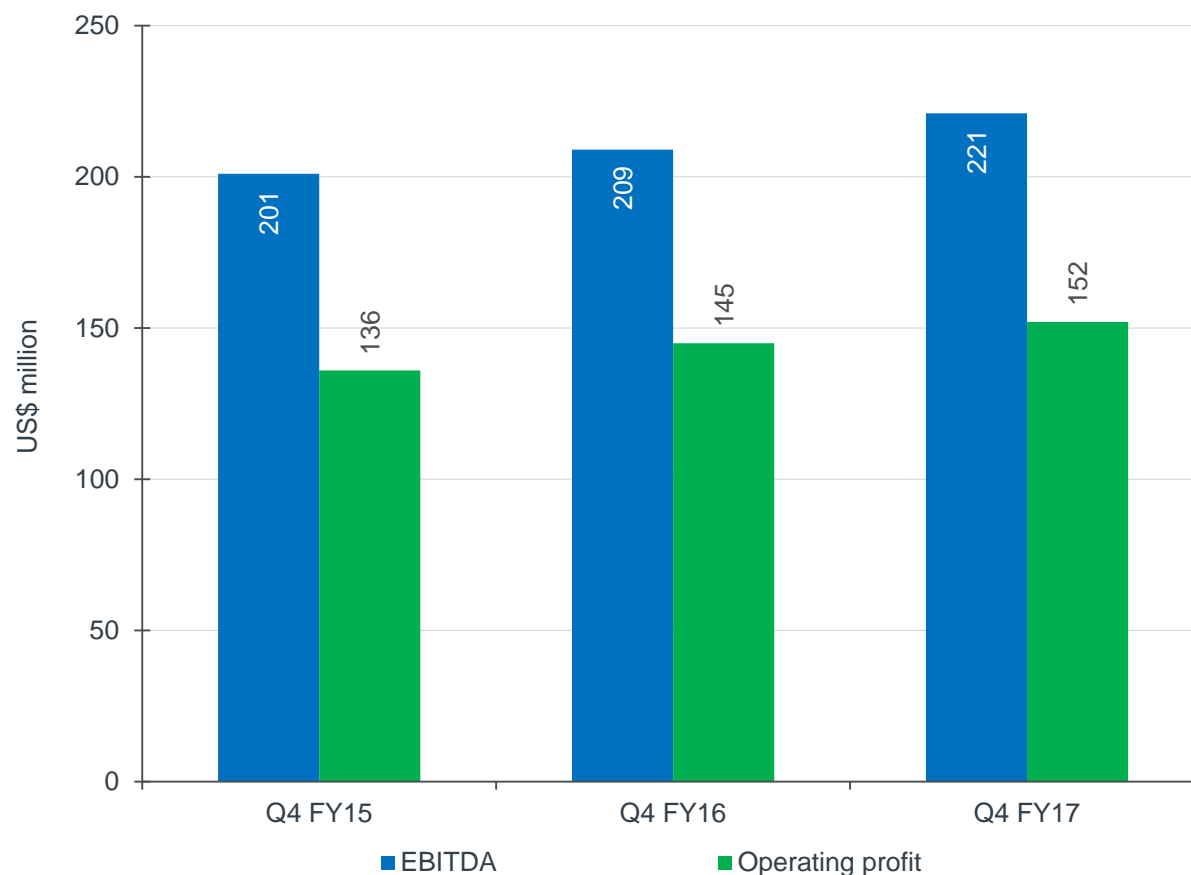
- EBITDA ex-special items: US\$785m (FY16: US\$739m)
- Profit for the period: US\$338m (FY16: US\$319m)
- EPS ex-special items: 64 US cents (FY16: 57 US cents)
- Net debt: US\$1,322m, down US\$86m year-on-year
- Dividend of 15 US cents declared (FY16: 11 US cents)

Q4 FY17

- EBITDA ex-special items: US\$221m (Q4 FY16: US\$209m)
- Profit for the period: US\$102m (Q4 FY16: US\$112m)
- EPS ex-special items: 19 US cents (Q4 FY16: 18 US cents)

EBITDA and operating profit

Excluding special items*

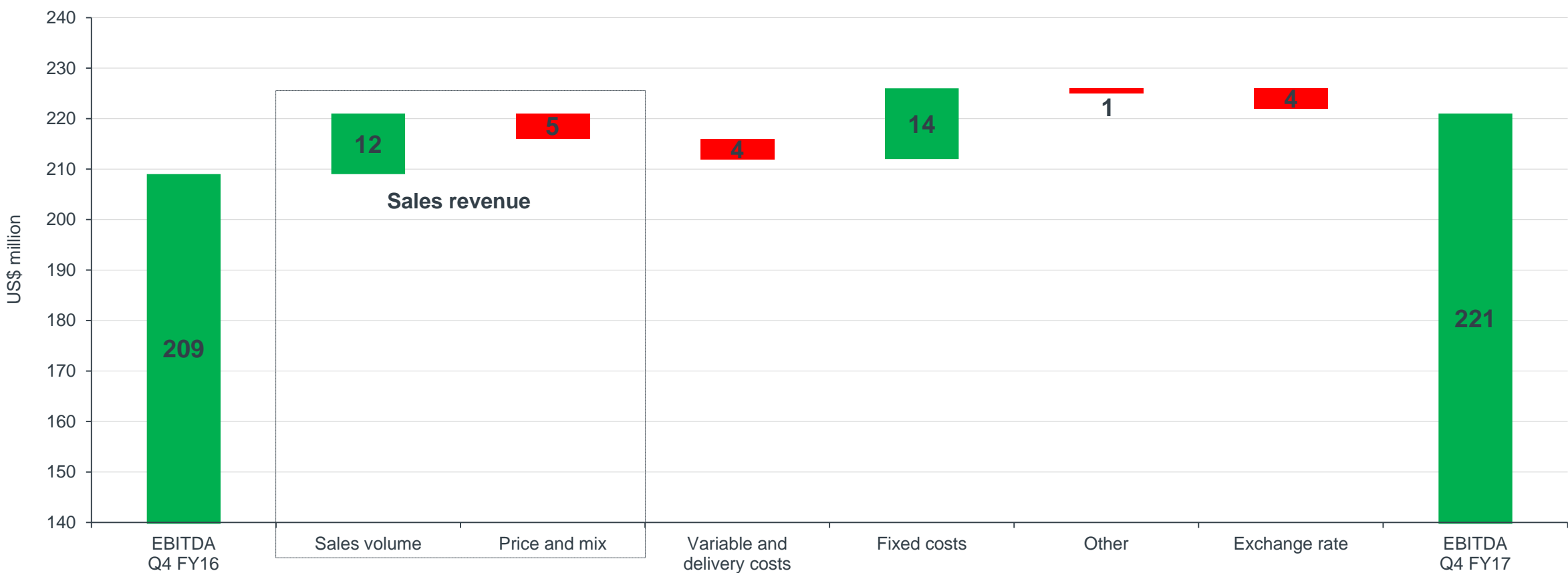


Key ratios	Q4 FY15	Q4 FY16	Q4 FY17
Net debt/LTM EBITDA	2.8	1.9	1.7
Interest cover	4.4	7.3	9.1
EBITDA %	14.3	15.6	15.7
ROCE %	18.7	20.9	20.2

* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q4 FY17 financial results booklet (available on www.sappi.com) for a definition of special items.

EBITDA bridge*

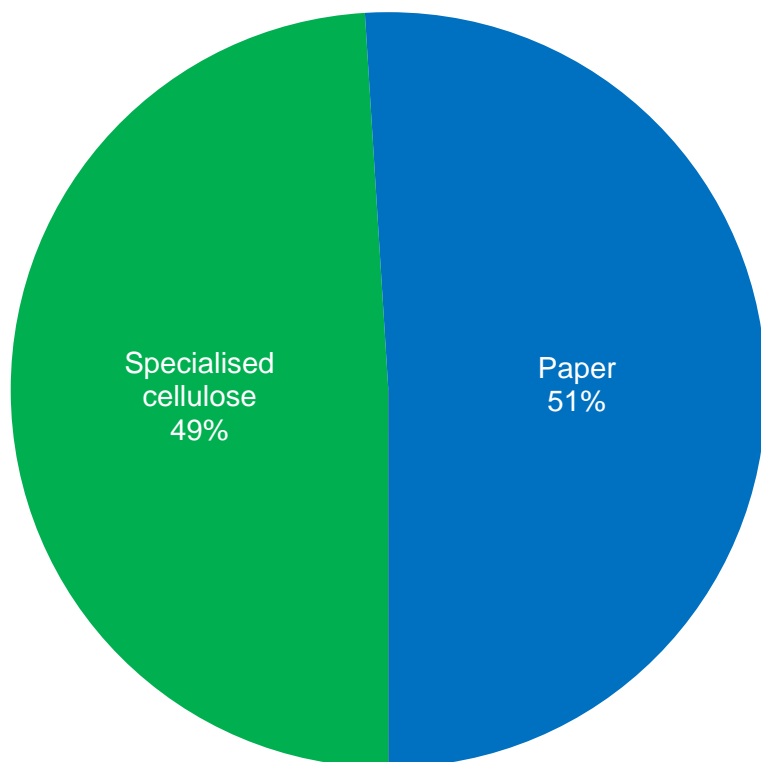
Q4 FY16 to Q4 FY17



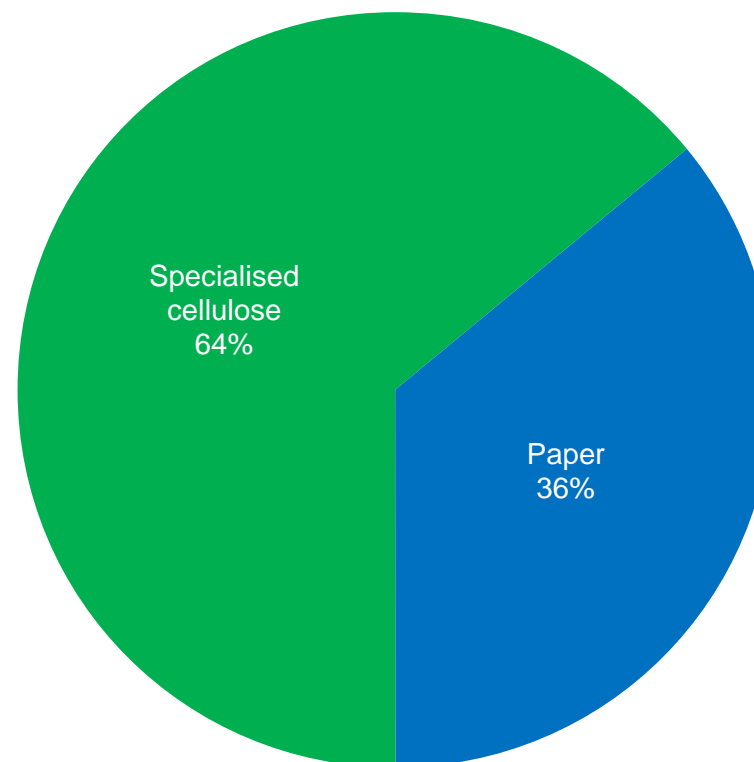
All variances calculated excluding Sappi Forests.
'Exchange rate' reflects the impact of changes in the average rates of translation of foreign currency results.
* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q4 FY17 financial results booklet (available on www.sappi.com) for a definition of special items.

Product contribution split - LTM

EBITDA excluding special items*



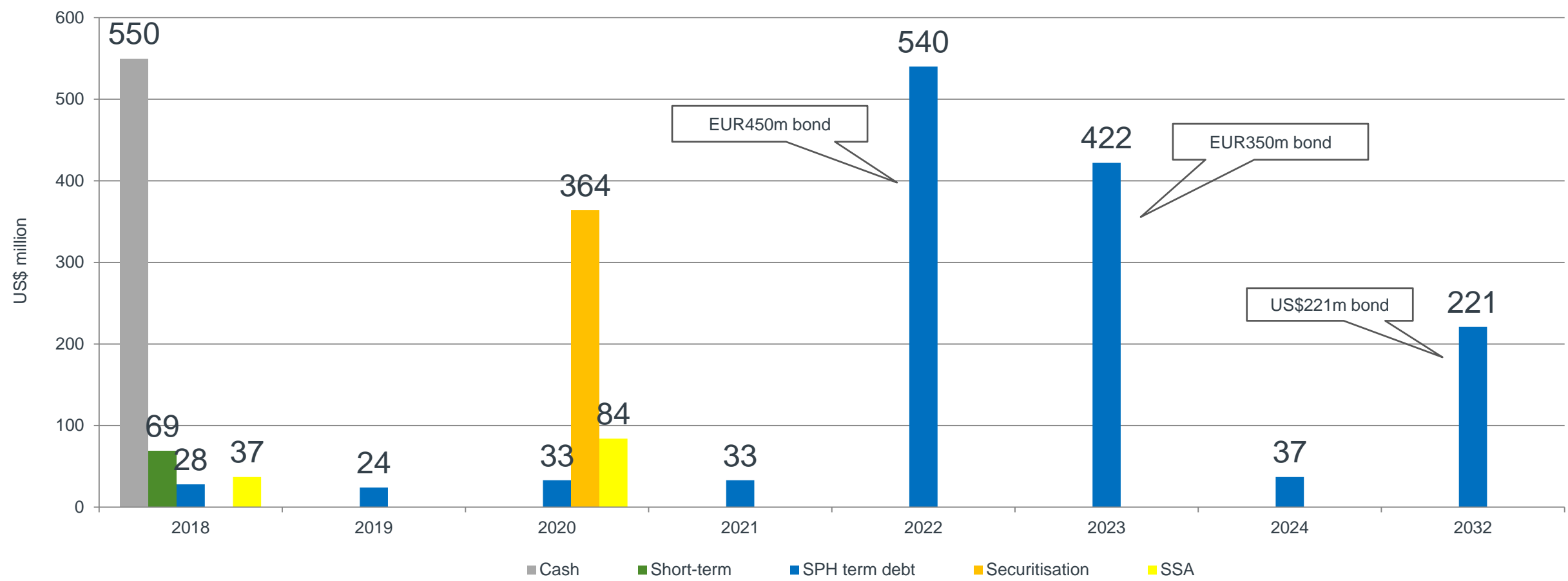
Operating profit ex special items



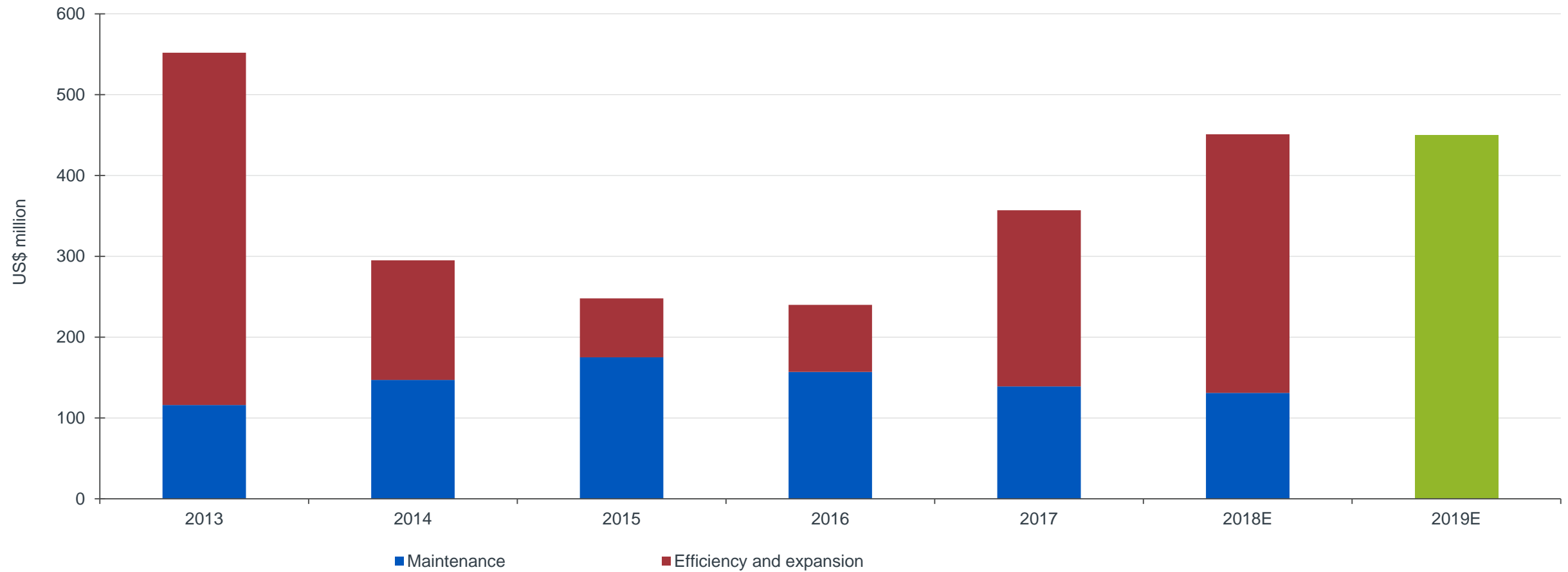
* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q4 FY17 financial results booklet (available on www.sappi.com) for a definition of special items. Data above excludes treasury operations and insurance captive.

Maturity profile

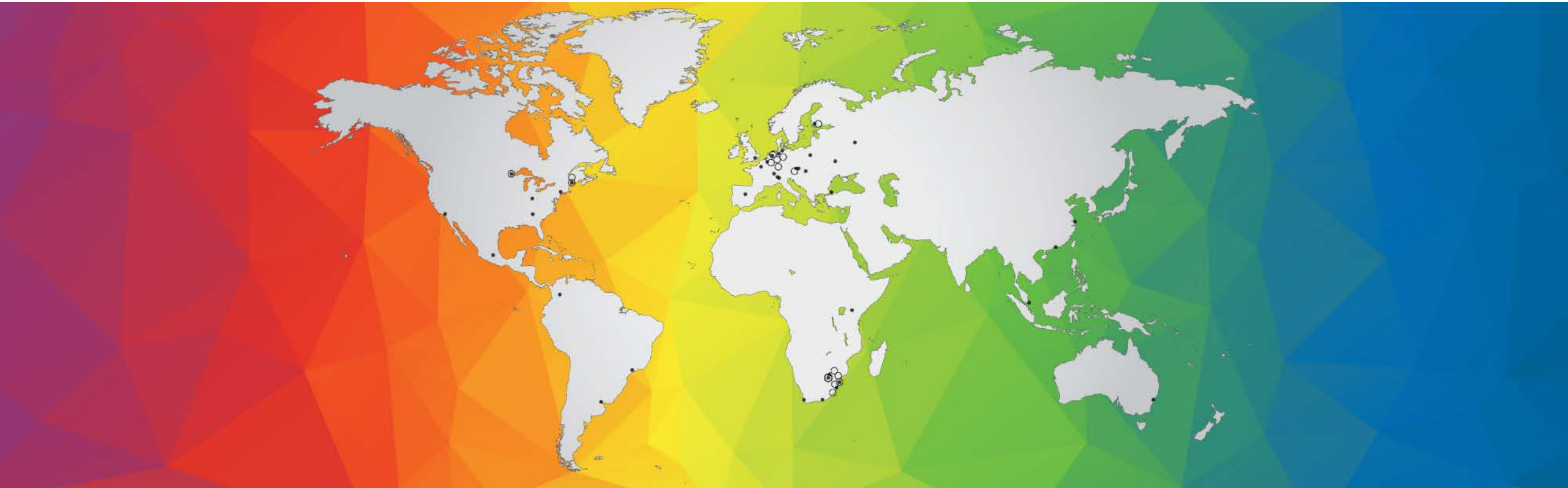
Fiscal years



Capex development



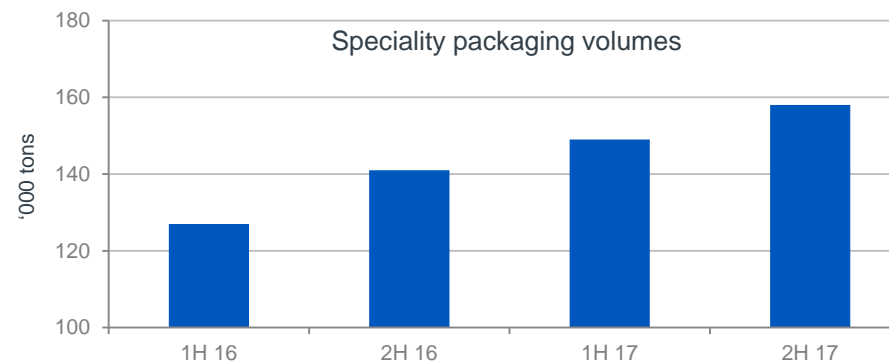
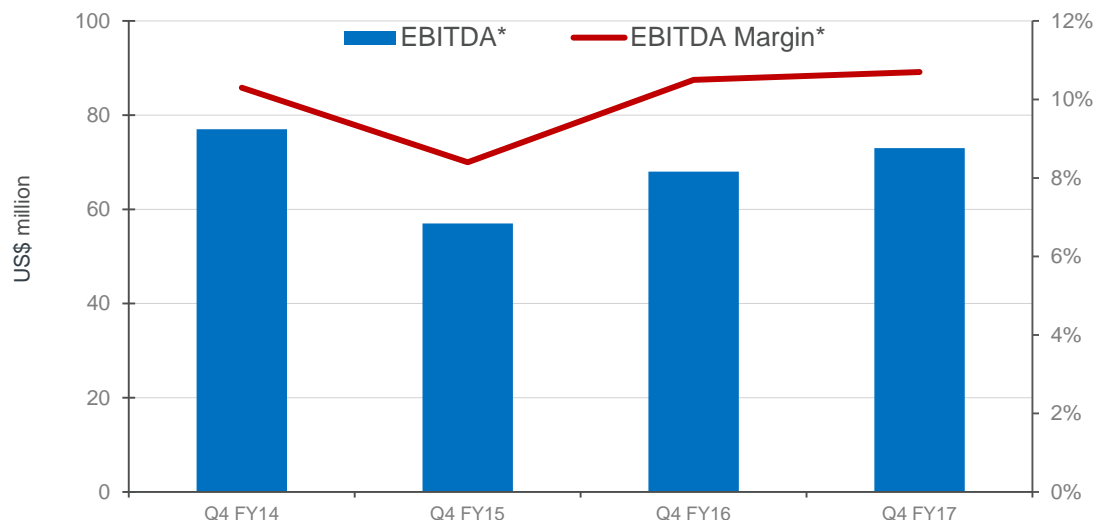
Divisional overview



Global paper market trends

- Supply and demand
 - Robust export markets for European producers – less competition from Asian producers
 - Capacity closures in North America
 - Speciality packaging paper demand continues to grow 1-5%.
- Selling prices and input costs
 - Coated paper prices rising globally, further increases in Europe and North America announced.
 - Variable costs pressure, especially paper pulp and latex.
 - Lag effect between pulp and paper prices squeezing margins.
- Strategy
 - Conversion of coated capacity to packaging in line with coated demand declines.
 - Cost and efficiency programs to reduce costs.

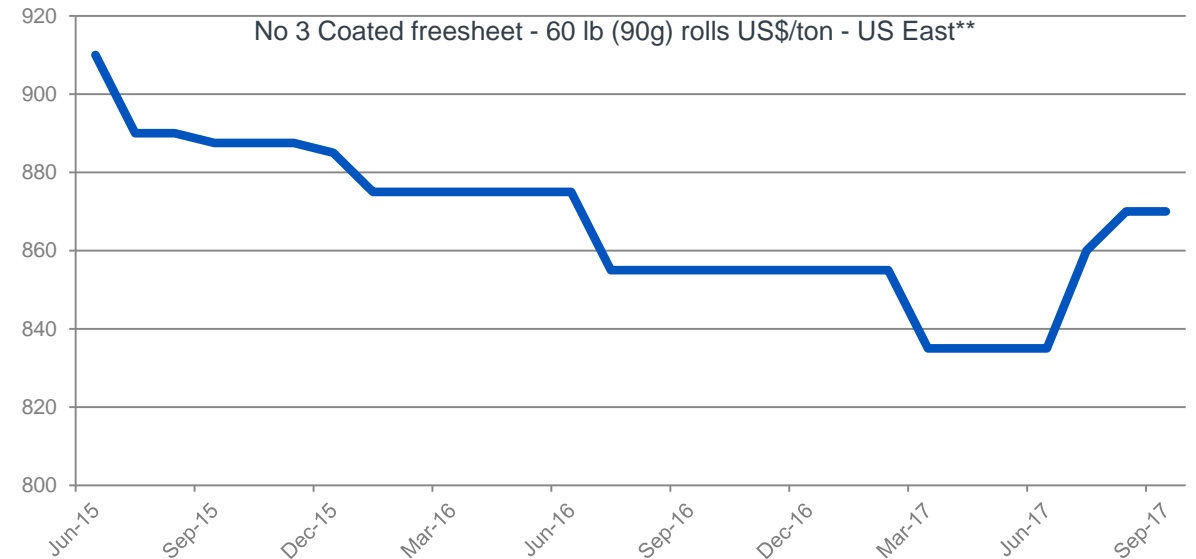
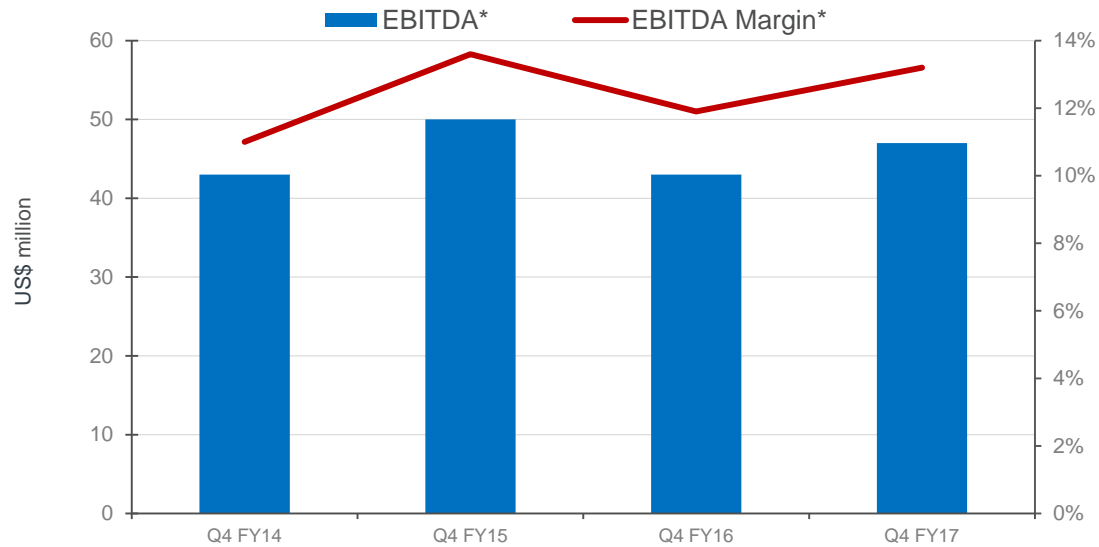
Sappi Europe



- Good local CWF demand, strong export volumes
- Successful price increases in Europe/abroad, but translation impact of a stronger Euro for export pricing resulted in flat realised prices for both printing and speciality papers
- Variable costs were higher from both periods, led by hardwood pulp and latex

* EBITDA and EBITDA margin shown exclude special items. Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q4 FY17 financial results booklet (available on www.sappi.com) for a definition of special items.

Sappi North America



- Stronger performance relative to last year led by packaging and specialities volumes.
- Average realised coated paper prices rose 3% sequentially, capacity coming out.
- Fixed and variable costs were favourable relative to both periods due to efficiency/usage gains.

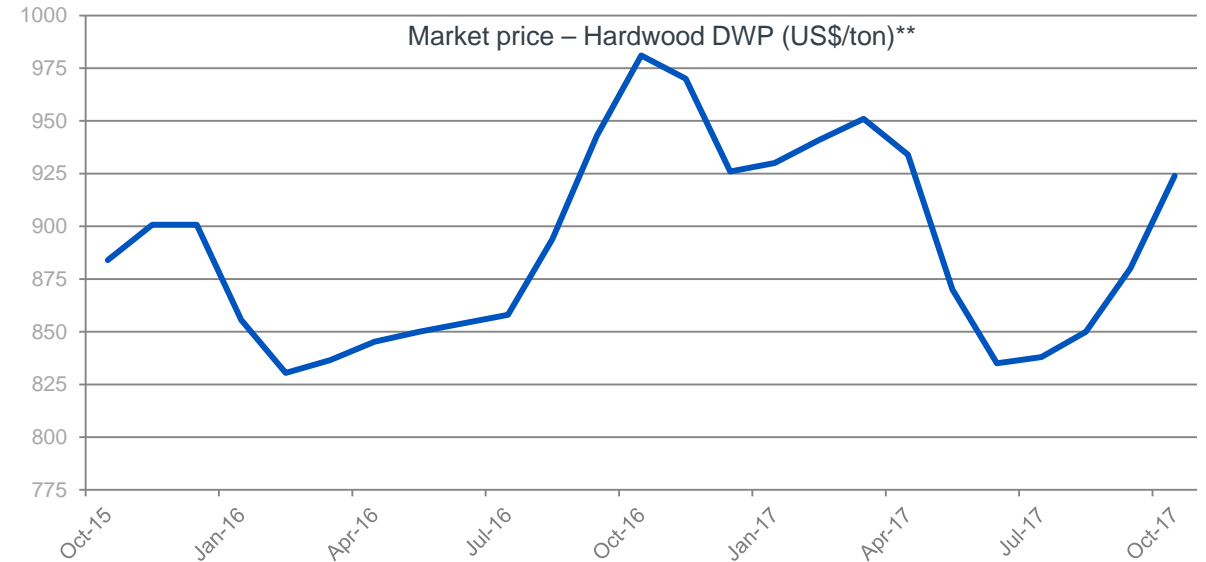
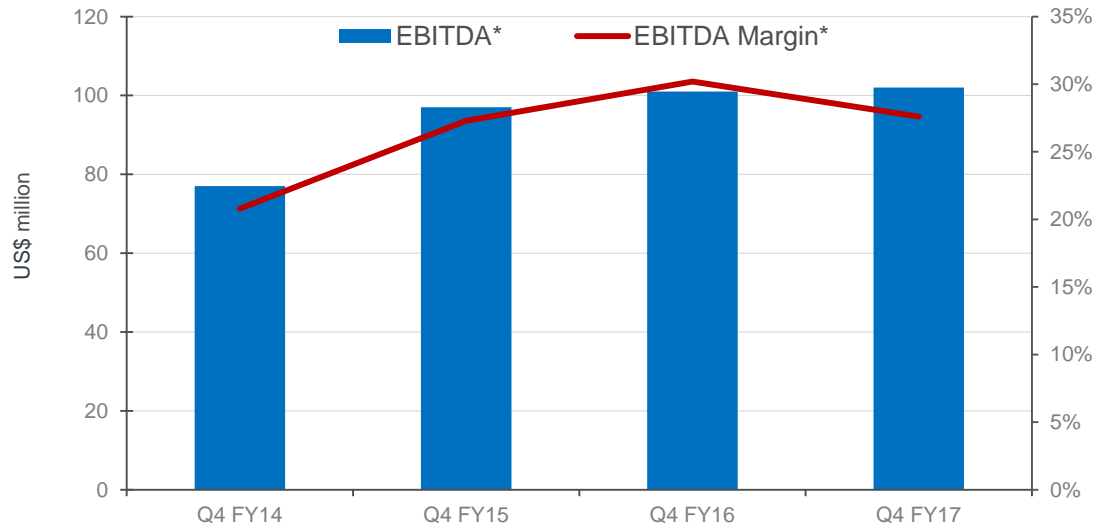
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** Source: RISI

Global DWP market trends

- Supply and demand
 - Continued strong demand from new viscose capacity.
 - New market DWP capacity likely in 2019 – limited capacity addition 2017/2018.
- Selling prices and input costs
 - DWP prices rose in September
 - Polyester prices have risen recently, VSF pricing under some pressure
 - Paper pulp prices increased – more attractive for swing capacity.
- Strategy
 - Maintain low-cost position.
 - Continue working with customers to support common growth.
 - Debottlenecking SA mills – to add 60kt in next two years.
 - Long-term growth opportunities, both internal and external.

Sappi Southern Africa

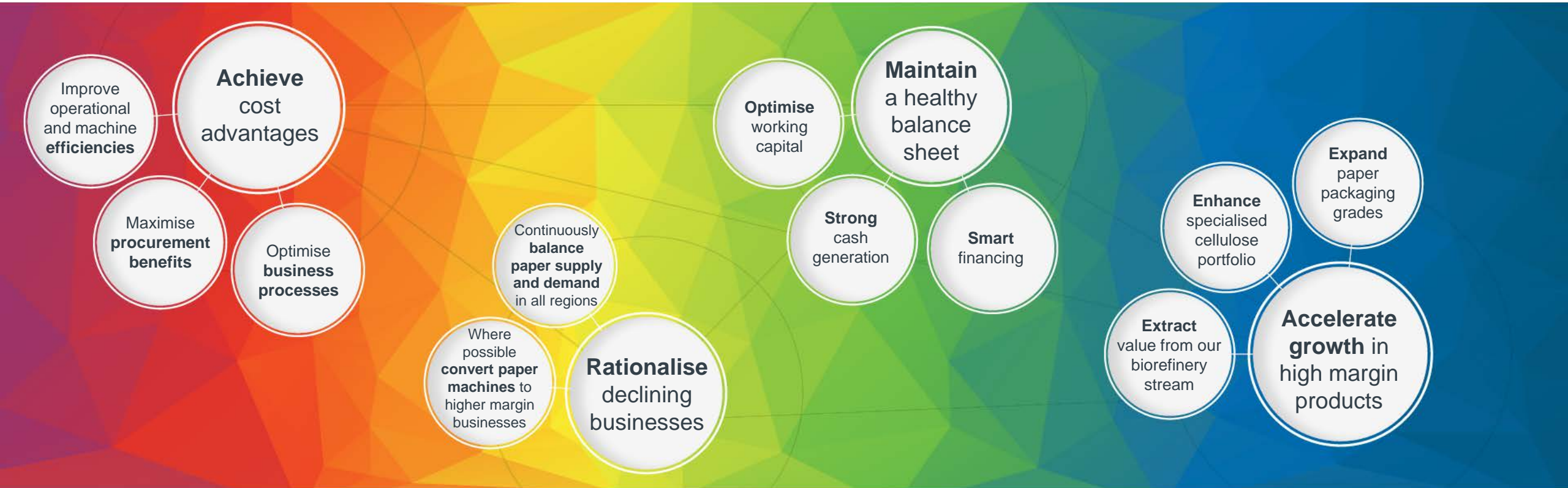


- Better volumes and lower costs, stronger Rand offset these benefits which led to lower margins.
- Realised US\$ prices for DWP were lower, but spot prices have risen since quarter-end.
- Price increases and lower costs in our paper business led to good growth in profitability.

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** Source: CCF

Our group strategy



At Sappi we do business with integrity and courage; making smart decisions which we execute with speed. Our values are underpinned by an unrelenting focus on and commitment to safety.

Our group strategy



- We work to lower fixed and variable costs, increase cost efficiencies and invest for cost advantages.
- Group procurement initiatives >US\$100m annually by 2020 – target exceeded in 2017.
- Ongoing continuous improvement across all mills.
- US\$55m investment in Saiccor Mill woodyard.
- €30m upgrade to Gratkorn PM9

Our group strategy



- Recognising the decreasing demand for graphic paper, we manage our capacity to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation.
 - Progressive transition of Lanaken Mill out of LWC.
 - Reduced CWF exposure at Maastricht Mill, Ehingen Mill and Somerset Mill PM1.
 - Conversion of Somerset PM1 and Maastricht Mill

Our group strategy



- US\$400m 2017 bonds called in April 2017.
 - US\$21m in net finance cost savings/annum.
- Refinancing and debt reduction leads to lower finance cost - US\$60-70m/annum going forward - and EPS growth.

Our group strategy



- We will make investments in existing and adjacent areas with strong potential growth.
 - Debottlenecking of Saiccor and Ngodwana DWP.
 - Investments in Speciality packaging incl. Rockwell
 - Additional packaging at Ngodwana and Tugela Mills.
 - Securing additional HW timber supply.
 - Biomaterials, bio-chemicals – lignins, sugars.
 - Expanded DWP portfolio – nanocellulose, other speciality grades.

Outlook



Outlook

- DWP demand strong – pricing recovery underway.
- In Europe, utilisation rates remain good, higher sales prices lagging pulp cost increases for the moment
- Coated paper prices rising in North America – capacity closures improve operating rates.
- Maastricht and Somerset Mills conversions complete in 2nd and 3rd quarters, respectively.
- Capex to be US\$450m on conversions in EU/NA, debottlenecking DWP at Saiccor/Ngodwana and upgrade of the Saiccor wood-yard – leading to stronger profitability in 2019
- FQ1 expected to be below last year – One less week, higher paper pulp costs, lower DWP contract pricing and storm impact.

Thank you

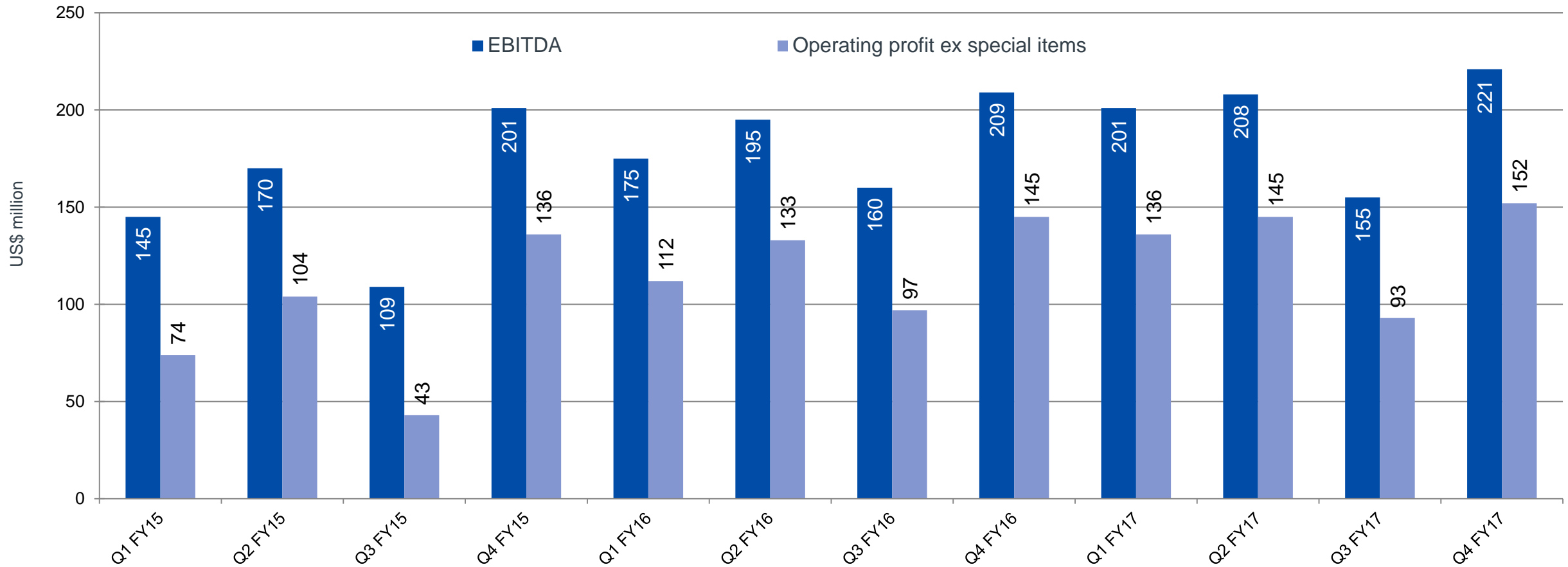


Supplementary information



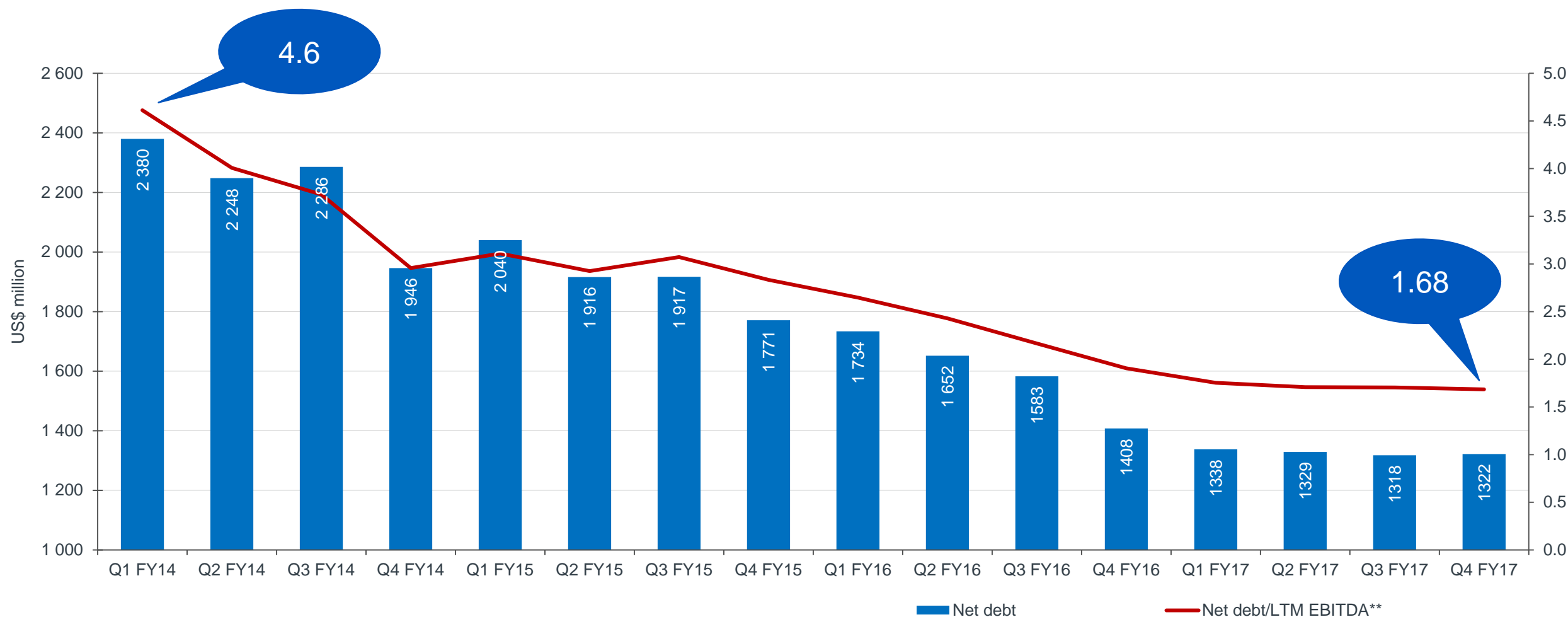
EBITDA and operating profit

Excluding special items*



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Net debt/EBITDA development

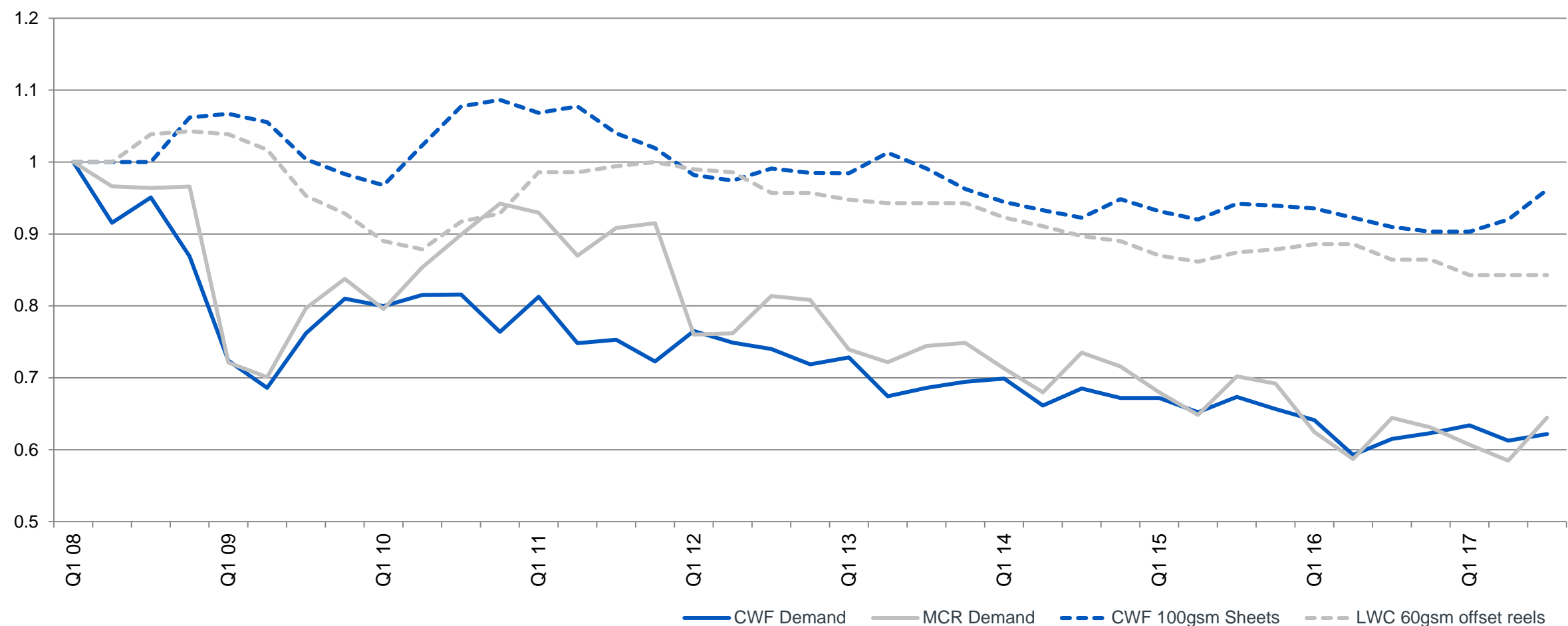


* EBITDA is excluding special items.

** The covenant Net debt/LTM EBITDA calculation has adjustments and therefore differs from that shown above.

Coated paper deliveries and prices

Western Europe



Western Europe shipments including export.
Source: Cepifine, Cepiprint and RISI indexed to calendar 1Q 2008.

Sappi Europe

	Q4 FY17	Q4 FY16	FY 2017	FY 2016
Tons sold ('000)	842	822	3,343	3,252
Sales (EURm)	583	579	2,319	2,324
Price/Ton (EUR)	692	704	694	715
Cost/Ton* (EUR)	651	667	656	678
Operating profit excluding special items** (EURm)	35	31	127	118

* Sales less operating profit excluding special items divided by tons sold.

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Sappi packaging and speciality papers

Global production sites



Alfeld Mill (Germany)

Flexible packaging, label, SBB board, topline and release liner



Ehingen Mill (Germany)

Topliner – Fusion®



Somerset Mill (USA)

Label paper – LusterCote® and Flexpack paper – LusterPrint®



Tugela Mill (South Africa)

Liner – UltraTest® and Fluting – UltraFlute®

Maastricht Mill (The Netherlands)



Folding boxboard – atelier™

Cloquet Mill (USA)



Label paper – LusterCote®

Westbrook Mill (USA)



Casting and release paper – Ultracast® & different classic brands

Ngodwana Mill (South Africa)



Liner – KraftPride®

Markets and growth rates

Global market size – Speciality packaging



Flexible packaging and label papers

- C1S papers
- 1.2 million tons
- Growth: 2-3%pa



Release liner

- CCK graphic arts
- 300,000 tons
- Growth: 6%pa



Rigid packaging

- SBS printing and converting
- 4.7 million tons
- Growth: 2%pa



Containerboard

- Coated white
Topliner
- 1 million tons
- Growth: 1-2%pa



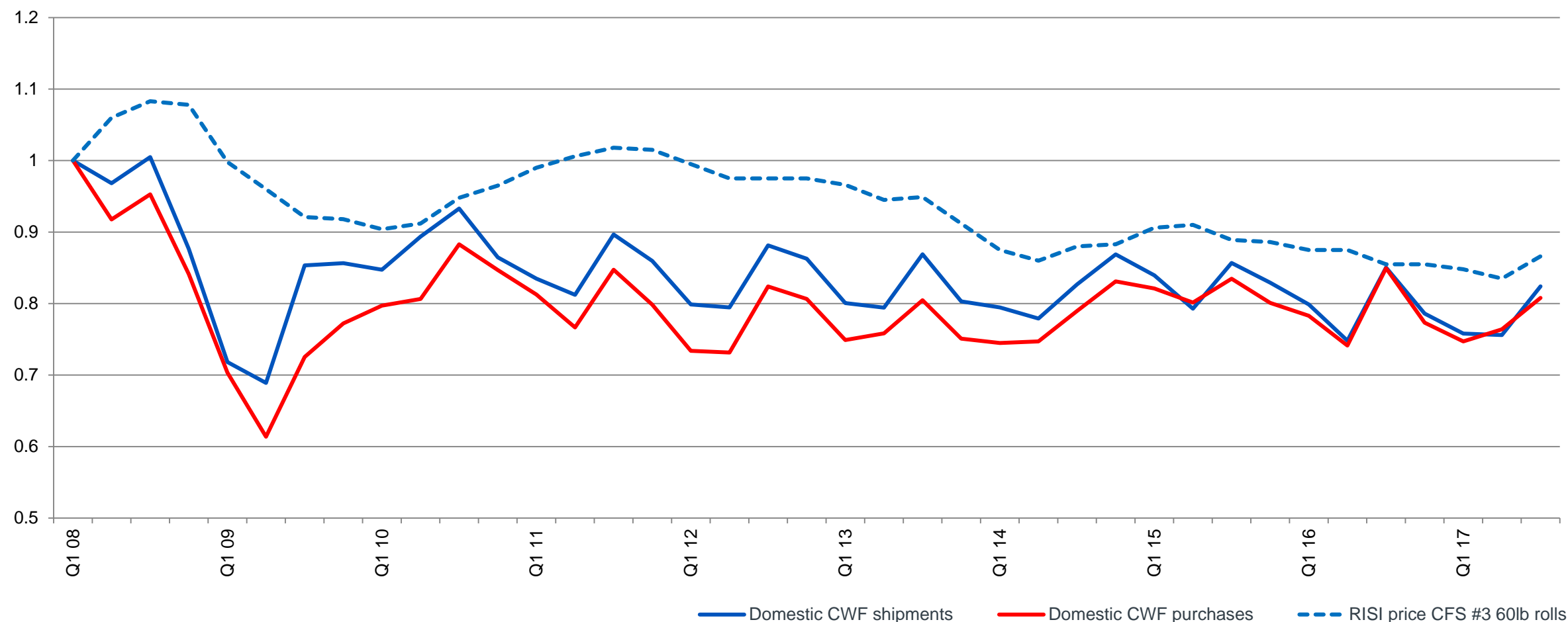
Functional papers

- Barrier and grease
resistant papers
- Virtually unlimited

Source for growth rates: AWA, Pira and RISI.

Coated paper prices and shipments

United States of America



US industry purchases defined as industry shipments, plus imports, less exports.
Source: AF&PA and RISI indexed to calendar Q1 FY08.

Sappi North America

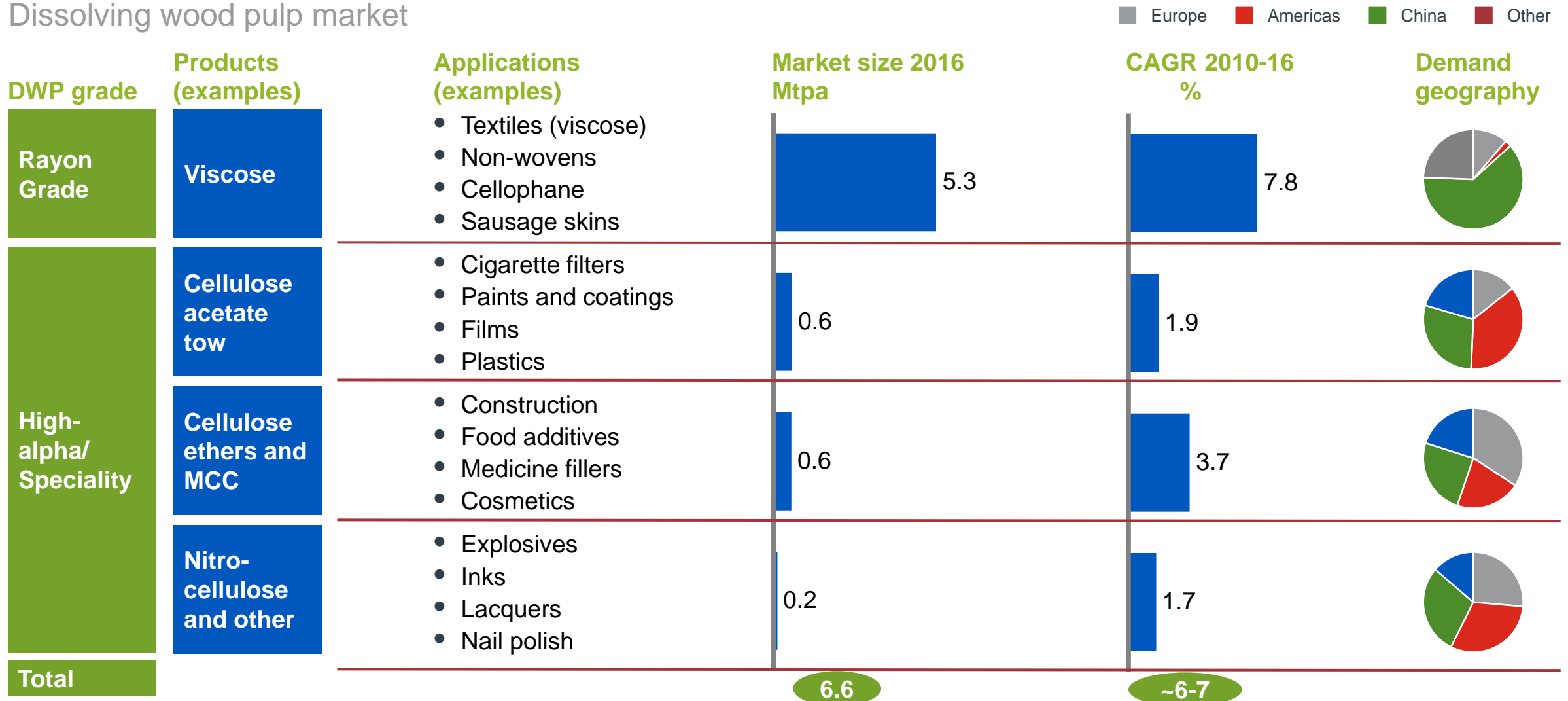
	Q4 FY17	Q4 FY16	FY 2017	FY 2016
Tons sold ('000)	361	363	1,359	1,329
Sales (US\$m)	357	360	1,360	1,367
Price/Ton (US\$)	989	992	1,001	1,029
Cost/Ton* (US\$)	914	923	966	992
Operating profit excluding special items** (US\$m)	27	25	47	49

* Sales less operating profit excluding special items divided by tons sold.

** Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q4 FY17 financial results booklet (available on www.sappi.com) for a definition of special items.

Viscose-grade DWP is used almost exclusively in textile applications

Dissolving wood pulp market



Source: Hawkins Wright; Fibre Year 2017; RISI 'Dissolving Pulp Monitor' (Jan 2017) and 'Outlook for the Global Dissolving Pulp Market'.

Cellulosic fibre properties are superior to cotton and polyester for many textile applications

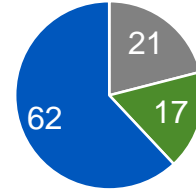
✓✓ Key strength ✓ Qualifies ✗ Issue

■ Nonwovens/Technical textiles ■ Home textiles ■ Apparel

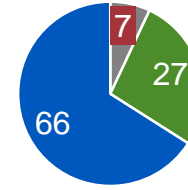
Fibre properties and applications

Applications

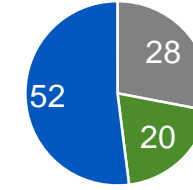
Cellulosic fibres



Cotton



Polyester



Function and feel

Durability

✗

✓

✓✓

Absorbency

✓

✓

✗

Breathability

✓

✓

✗

Softness

✓

✓

✓

Drape

✓

✗

✗

Appearance

Dyeability

✓✓

✓

✓✓

Brightness/Lustre

✓✓

✓

✓

Sustainability

Renewable and biodegradeable

✓✓

✓✓

✗

Resource efficiency

✓✓

✗

✗

Overall value proposition

- Natural and attractive, 'greener' alternative to cotton

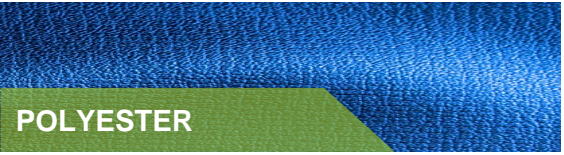
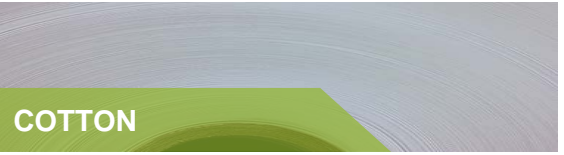

- Natural, functional and well established

- Cheap, durable and versatile

- On a pure property basis, cellulosic fibres are superior to cotton and differentiated on sustainability.
- Polyester is differentiated on strength/durability versus cotton and cellulosic fibres.

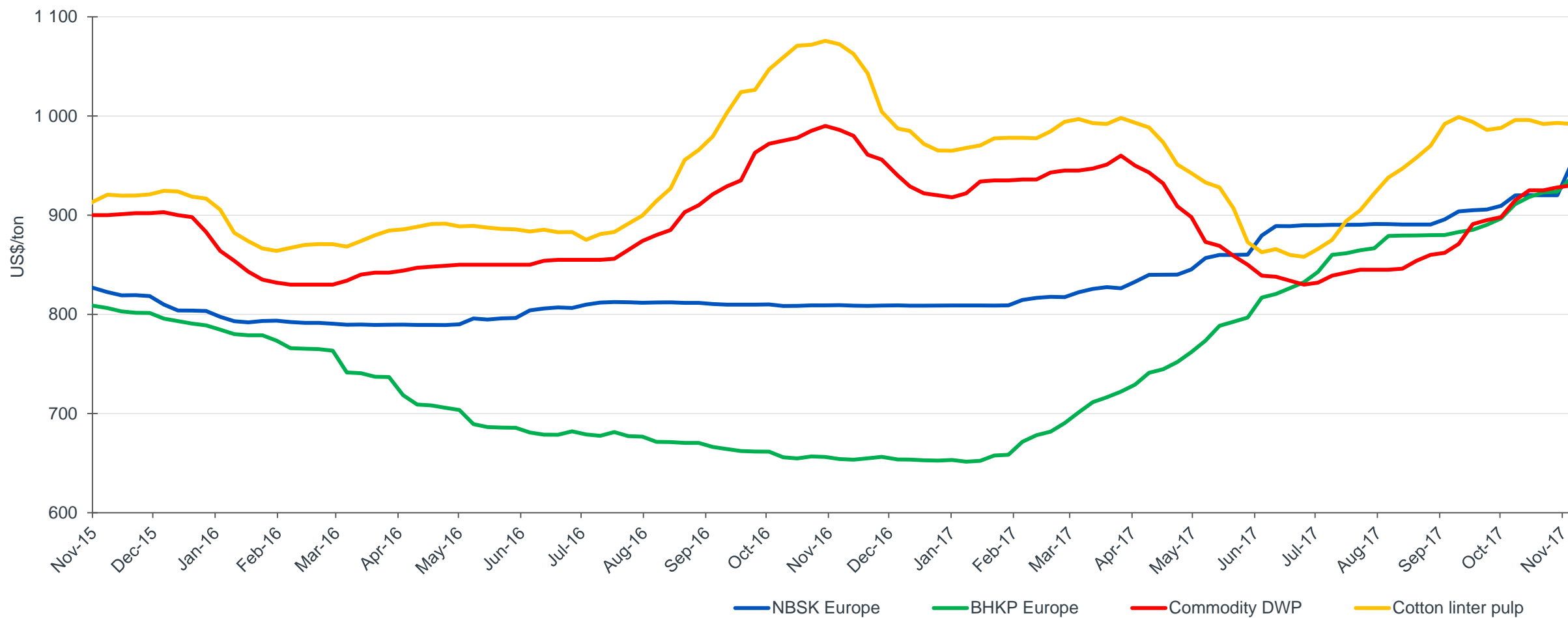
Source: IHS Global, RISI, Hawkins Wright.

There is still significant headroom to increase the level of cellulosic fibre blending in most sub-categories

	 POLYESTER			 COTTON			 CELLULOSIC		
	Today	Future	Gap	Today	Future	Gap	Today	Future	Gap
Apparel									
Denim	5%	5%	0	95%	95%	0%	0%	0%	0%
Shirts	35%	40%	+14%	50%	40%	-20%	15%	20%	+33%
T-shirts	30%	50%	+67%	70%	50%	-29%	3%	5%	0%
Dresses	10%	10%	0%	35%	25%	-29%	55%	65%	+18%
Suits	35%	40%	+14%	25%	20%	-20%	~1%	~2%	+100%
Sportswear	85%	85%	0%	0%	0%	0%	15%	15%	0%
Casual wear	45%	50%	+11%	45%	35%	-22%	10%	15%	+50%
Home textile									
Towels	5%	5%	0%	80%	75%	-6%	15%	20%	+33%
Bedding	45%	55%	+22%	45%	40%	-11%	1%	2%	+100%

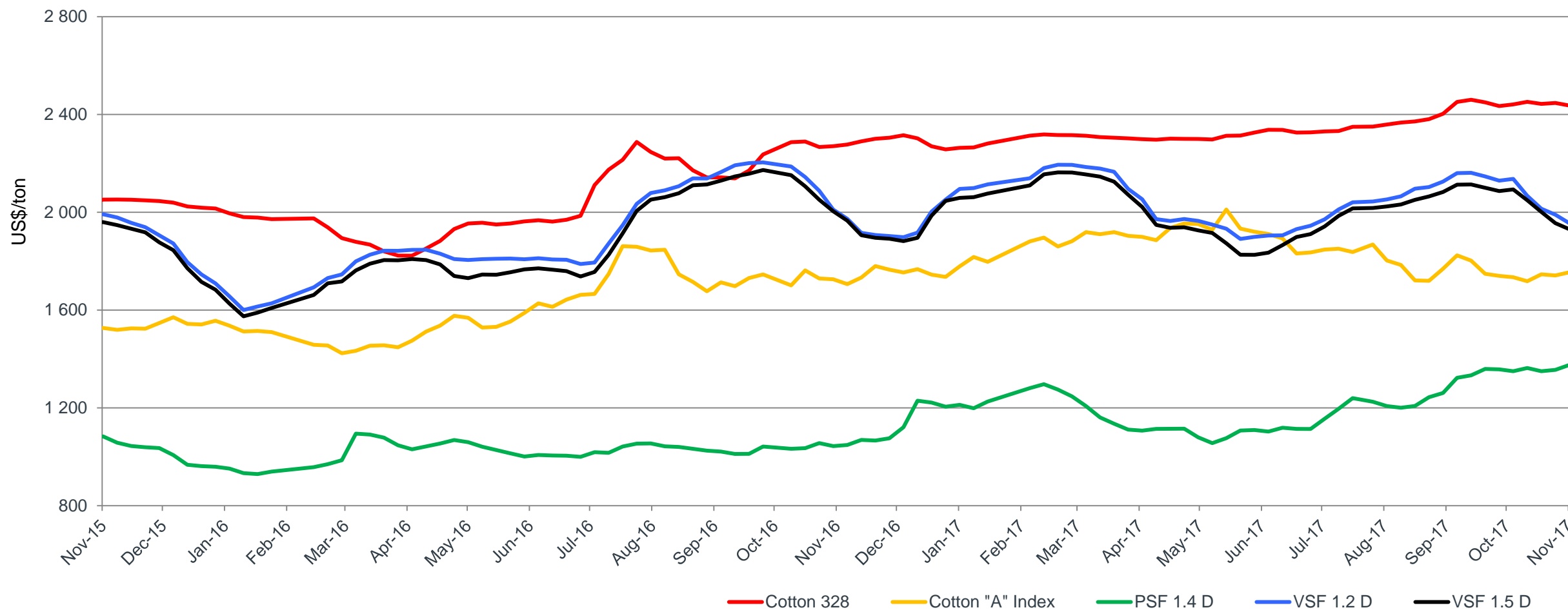
Source: Expert interviews.

Pulp prices*



* Source: FOEX, CCF group.

Textile fibre prices*



* Source: CCF group.

Sappi Southern Africa

Excluding Sappi Forests

	Q4 FY17	Q4 FY16	FY 2017	FY 2016
Tons sold ('000)	447	429	1,606	1,626
Sales (ZARm)	4,641	4,532	17,489	16,799
Price/Ton (ZAR)	10,383	10,564	10,890	10,332
Cost/Ton* (ZAR)	7,908	7,636	8,082	7,558
Operating profit excluding special items** (ZARm)	1,106	1,256	4,510	4,510

* Sales less operating profit excluding special items divided by tons sold.

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Cash flow

US\$m	Q4 FY17	Q4 FY16	FY 2017	FY 2016
Cash generated from operations	204	191	748	693
Movement in working capital	103	70	(27)	4
Net finance costs paid	(20)	(4)	(81)	(91)
Taxation paid	(38)	(2)	(100)	(56)
Dividend paid	-	-	(59)	-
Cash generated from operating activities	249	255	481	550
Cash utilised in investing activities	(208)	(87)	(373)	(191)
Capital expenditure	(197)	(97)	(357)	(241)
Net proceeds on disposal of assets	1	5	4	44
Acquisition of subsidiary	(11)	-	(11)	-
Other movements	(1)	5	(9)	6
Net cash generated (utilised)	41	168	108	359

EBITDA and operating profit

Excluding special items reconciliation to reported operating profit

US\$m	Q4 FY17	Q4 FY16	FY 2017	FY 2016
EBITDA excluding special items*	221	209	785	739
Depreciation and amortisation	(69)	(64)	(259)	(252)
Operating profit excluding special items*	152	145	526	487
Special items* - gains (losses)	(1)	25	-	57
Plantation price fair value adjustment	7	24	21	64
Net restructuring provisions	-	-	(1)	(4)
Profit on disposal of assets	(2)	(1)	(2)	15
Asset impairments	(6)	(2)	(6)	(2)
Employee benefit liability settlement	-	8	-	8
BEE charge	-	-	(1)	(1)
Fire, flood, storm and other events	-	(4)	(11)	(23)
Segment operating profit	151	170	526	544

* Refer to page 22 in our Q4 FY17 results booklet (available on www.sappi.com) for a definition of special items.

Thank you

