

Year-end and fourth quarter results for the period ended September 2019

FY19	EBITDA <small>excl special items¹</small> US\$ 687 million FY18 US\$762 million	Profit for the period US\$ 211 million FY18 US\$323 million	EPS <small>excl special items¹</small> US¢ 44 FY18 US¢60	Net debt US\$ 1,501 million FY18 US\$1,568 million
Q4FY19	EBITDA <small>excl special items¹</small> US\$ 185 million Q4 FY18 US\$224 million	Profit for the period US\$ 50 million Q4 FY18 US\$107 million	EPS <small>excl special items¹</small> US¢ 10 Q4 FY18 US¢19	Strong cash generation of US\$ 173 million

US\$ million	Quarter ended			Year ended	
	Sep 2019	Sep 2018	Jun 2019	Sep 2019	Sep 2018
Key figures					
Sales	1,454	1,535	1,371	5,746	5,806
Operating profit <small>excl special items¹</small>	109	148	48	402	480
Special items (gains) losses ¹	12	13	2	19	(9)
EBITDA <small>excluding special items¹</small>	185	224	118	687	762
Profit for the period	50	107	8	211	323
Basic EPS (US cents)	9	20	1	39	60
EPS <small>excluding special items (US cents)¹</small>	10	19	4	44	60
Net debt ¹	1,501	1,568	1,728	1,501	1,568
Key ratios (%)					
Operating profit <small>excl special items¹</small> to sales	7.5	9.6	3.5	7.0	8.3
ROCE ¹ <small>Operating profit excluding special items¹ to capital employed</small>	12.1	17.0	5.2	11.5	14.6
EBITDA <small>excl special items¹</small> to sales	12.7	14.6	8.6	12.0	13.1
Net debt to EBITDA <small>excl special items¹</small>	2.2	2.1	2.4	2.2	2.1
Interest cover ¹	9.3	11.0	9.6	9.3	11.0
Net asset value per share ¹ (US cents)	359	361	375	359	361

An **initially strong start** to the year was unfortunately offset by weak graphic paper markets and lower dissolving wood pulp (DWP) prices driven by the on-going trade wars and slower economic growth in various geographies.

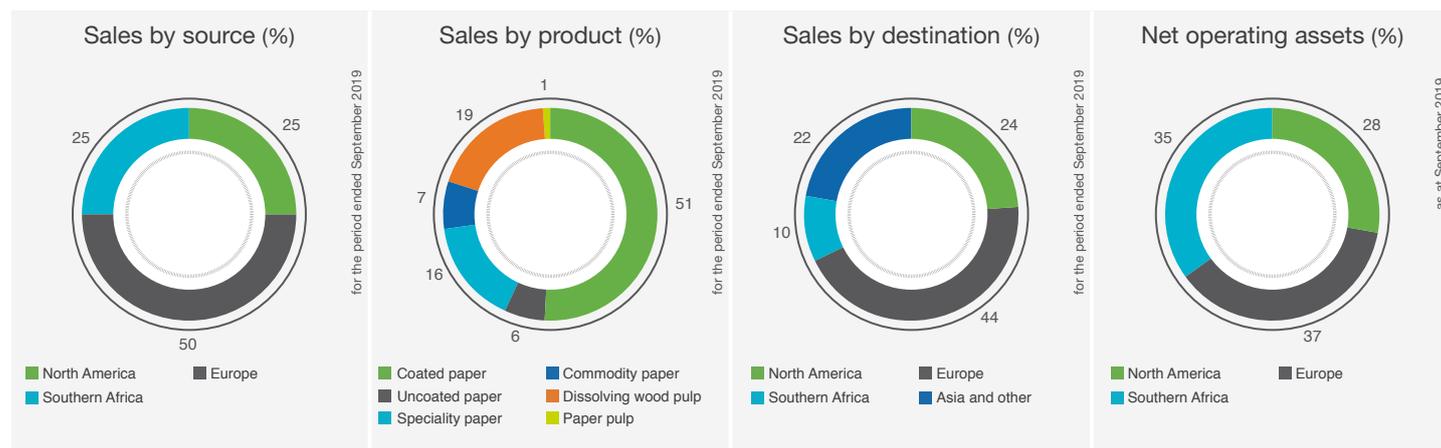
Our EBITDA declined by 10% year-on-year due to lower dissolving wood pulp prices and weak graphic paper demand. Our strategy to diversify our product portfolio into higher margin segments continues to deliver positive results. The **trend towards paper-based packaging in consumer segments continues**, and we experienced stable demand for containerboard in the South African market.

The recent projects to increase capacity at each of the DWP mills and convert capacity at Somerset and Maastricht towards packaging **boosted sales volumes in each of these segments** during the year, and for the quarter delivered improved margins, thereby lessening the impact of weak graphic paper markets.

Management have taken a number of steps to **mitigate the effect that the current uncertain market conditions and low DWP prices** are having on the profitability and leverage of the group. These steps include tighter working capital management, the postponement and reduction in capital expenditure. The directors have furthermore concurred with management that it would be prudent to temporarily halt dividends until such time as market conditions improve.

We were able to **generate cash of US\$173 million** in the quarter thereby ending the year with net debt at US\$1,501 million. This was done by tightly managing working capital and postponing discretionary capital expenditure.

Net operating assets and sales distribution



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Our strategy

Through intentional evolution we will continue to grow **Sappi** into a profitable and cash-generative diversified woodfibre group — focused on dissolving wood pulp, paper and products in adjacent fields.

Achieve
cost advantages

- Continuously improve **cost position**
- Continue to maximise **global benefits**
- Best-in-class **production efficiencies**

Rationalise
declining businesses

- Maximise production at low-cost mills
- Continuously **balance paper supply and demand** in all regions
- Continue to **transition** printing and writing papers capacity to higher margin and **growing specialties and packaging papers**

Maintain
a healthy balance sheet

- Maintain** net debt/EBITDA ~2x
- Continuously **improve working capital**
- Continue to monitor **bond market for opportunities**

Accelerate growth in higher margin growth segments

- Grow **DWP capacity** matching market demand
- Continue to expand and grow **specialties and packaging papers** in all regions targeting **25%** of group **EBITDA** by 2020
- Commence commercialisation of **biotech** opportunities

2019 objectives

Our values are underpinned by an unrelenting focus on and commitment to safety.

Outlook

Our **markets** are expected to **continue to be challenging** in the coming year, and **profitability** is likely to be **negatively impacted**. DWP pricing will have a significant impact on earnings as this segment is a major contributor to profit and cash flow generation. We have responded by **reducing** our **capital expenditure** both this past year and the next, and other than the 110,000 ton expansion of Saiccor which is currently underway, we have not committed capital to any material project. We have reduced working capital, amended debt covenants, targeted further cost reductions and are evaluating options regarding our paper machines in Europe to lower fixed costs and match capacity to demand.

Having declined 32% in the past year to an historic low of US\$638/ton, **DWP pricing remains under significant pressure**. This is below the cash cost of production for a significant proportion of global supply and therefore unsustainable over a prolonged period. Underlying demand is growing at rates consistent with our long-term forecasts. A price recovery is likely to be prompted by a recovery in VSF prices which have been depressed by excess capacity and a weak Chinese textile market.

In the packaging and speciality segment we are making good progress with customer acceptance in both the US and European markets and the ramp-up of volumes continues, aided by the **shift from plastic to paper** in many packaging categories. However, the slowing South African economy will likely impact domestic demand for containerboard in the coming year.

Global graphic paper markets continue to experience weakness due to a combination of economic factors as well as the ongoing shift towards digital media. Pricing has declined only marginally over the past quarter, and as paper pulp prices in Europe and North America approach those prevalent in China, margins should be maintained.

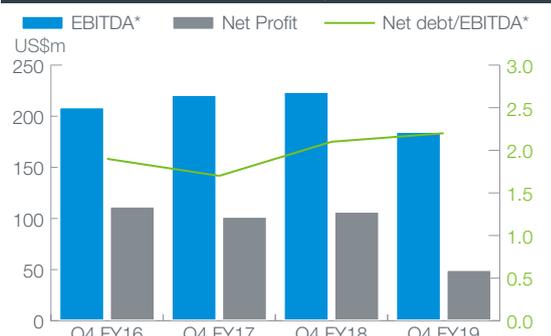
Capital expenditure in 2020 is expected to **decrease to US\$460 million** as we complete the Saiccor 110kt expansion project and some smaller European pulp mill debottlenecking projects.

Due to the current very weak pricing in the DWP market and with paper markets yet to show signs of a sustained recovery in demand, we expect **EBITDA in the first quarter of financial year 2020 to be below that of 2019**.



The **Matane pulp mill acquisition** was completed on 03 November 2019. The **270,000 ton high-yield hardwood** pulp mill, in Quebec, Canada, was acquired from Rayonier Advanced Materials Inc. The acquisition will increase Sappi's pulp integration for both its North American and European packaging businesses and lower the costs of pulp, reduce volatility of earnings throughout the pulp cycle and provide certainty of supply. The payment of the adjusted net acquisition price of approximately US\$158 million will be made in the first quarter of the 2020 financial year, funded via a new term loan.

Quarter-on-quarter earnings, profit and debt



* Excluding special items

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Europe — Q4



- 10** Production facilities
- 14** Sales offices

Lower variable costs and higher average net selling prices were insufficient to offset demand weakness in the graphic paper grades and some segments of the packaging and specialties market, leading to a **year-on-year reduction in profitability**.

Continued **market share gains** as competitors looked to exit the market led to coated woodfree sales shrinking by only 7%, compared to the industry's 13%.

Coated mechanical sales volumes were significantly lower as our capacity reduced following the conversion of PM8 at Lanaken. To manage inventory levels, **37,000 tons of production downtime** was taken in the quarter.

Average net selling prices for the graphics grades were 1% higher year-on-year.

Volumes in the packaging and specialties business were flat year-on-year, with stronger sales for rigid packaging offsetting weakness in the consumer speciality grades. Deteriorating paper pulp prices provided some relief to margins.

Variable costs were 4% lower year-on-year driven by a reduction in prices for all major cost categories with the exception of wood.

Fixed costs increased by 5%, mainly due to additional maintenance expenditure.

North America — Q4



- 3** Production facilities
- 6** Sales offices

Profitability in this **seasonally strong quarter** improved sequentially. However, increased sales volumes of paperboard and paper pulp as well as higher coated paper selling prices could not offset the impact of lower year-on-year graphic paper volumes and DWP selling prices.

Demand for graphic paper in the US was **13% lower** in the quarter, which necessitated **57,000 tons of commercial downtime**. This negatively affected not only revenue but also paper mill efficiencies and thereby impacted variable costs per ton. Coated paper selling prices were constant compared to the prior quarter.

DWP sales volumes increased year-on-year following the **successful debottlenecking of the Cloquet mill** in April and a reduction in inventory. However, due to challenging markets, average net selling prices were 9% below those of last year.

The ramp-up of the paperboard grades on PM1 progressed, with volumes, average net selling prices and variable costs improving in comparison to the prior quarter. Overall **packaging and speciality volumes** were **36% above** those of the prior year.

Variable costs were 4% below that of the prior year with lower paper pulp prices offsetting slightly higher wood costs for the Somerset Mill. Fixed costs were 1% lower than the prior year.

Southern Africa — Q4



- 5** Production facilities
- 6** Sales offices
- 516,000ha** Plantations

Increased sales volumes and a weaker Rand/US Dollar exchange rate were not sufficient to offset lower US\$ DWP prices and higher wood and energy costs compared to the prior year.

Increased DWP sales volumes were offset by average Rand selling prices that were 4% below that of last year, while variable costs increased by 3% led by wood and energy.

Progress on the expansion of the Saiccor mill by 110kt continues to plan, with completion expected in late 2020.

Improved packaging sales volumes and prices offset weaker printing paper demand.

Tight cost control in this segment led to improved year-on-year profitability.

Demand for packaging weakened late in the quarter as a slowdown in the SA economy and lower than expected citrus exports impacted demand.

Fixed costs rose slightly ahead of inflation.

Variable costs were 8% higher year-on-year, primarily due to increased purchased coal, electricity and wood prices.



Berry Wiersum
Chief Executive Officer
Sappi Europe



Mark Gardner
President and Chief
Executive Officer
Sappi North America



Alex Thiel
Chief Executive Officer
Sappi Southern Africa

Our expanded brand portfolio



Dissolving wood pulp

sappi | Verve

A natural fibre for a resource constrained world, Verve is our Dissolving Wood Pulp grade helping to create a tomorrow that is better than today and is used in a myriad of applications from textiles through to household, industrial and pharmaceutical products.

sappi | Atelier

A truly new dimension in the folding box board market that delivers the ultimate in brightness, purity and gloss with a silky touch and feel, paired with bulk and stiffness.

sappi | Guard

Innovative paper-based packaging solutions with excellent heat sealing properties and integrated barrier functionality against oxygen, water vapour, grease, aroma and mineral oil respond to market demand for alternatives to foils and plastic by eliminating the need for special coatings or laminates. As well as lowering costs, Guard also reduces the environmental impact of packaging.

sappi | Spectro

Spectro C2S is an SBS with enhanced optics and superior printability ideal for premium applications that call for dynamic and vibrant images.

sappi | Transjet Drive

Our coated sublimation papers for digital transfer printing with water-based dye sublimation inks are used in fashion, home and advertising textiles, sportswear and hard substrates such as snowboards. Our Transjet sublimation papers are designed for maximum and consistent colour transfer with minimum ink consumption and are suitable for various machine types and speeds to cover a wide range of polyester-based applications.

sappi | UltraFlute

A semi-chemical fluting paper used in the manufacturing of corrugated boxes.

sappi | Ultracast

Ultracast casting and release papers provide the ultimate in product aesthetics, offering flawless texture replication for discerning brand owners.



Packaging and specialty papers

sappi | Magno

A globally available range of coated and uncoated fine papers including seven product choices, four surface finishes and a wide range of weights.

sappi | McCoy

A superior printing paper with unrivalled luminosity and a one-of-a-kind silk finish used to create luxurious brand promotion experiences.

sappi | Validia

An evolution of cellulose at nanoscale which imparts unique properties and functionality to a truly natural and sustainable material. Validia is the ideal natural choice for stabilising suspensions, modifying rheology and reinforcing materials whilst being kind to the environment.

sappi | Symbio

An innovative solution for increasing the biomaterial content of plastic composites. Premium cellulose fibres pre-dispersed in polypropylene enhance mechanical properties and reduce density whilst imparting natural haptics to plastic components.

sappi | Lignex

Extracted from trees, Lignex is an environmentally friendly dust suppressant and road-surface stabiliser which increases the longevity and reduces maintenance costs of well-constructed gravel roads, whilst reducing the negative impact of airborne dust particles.

sappi | Hansa

A lignosulphonate with outstanding dispersing properties. Hansa is widely used in ready-mix concrete, reducing water consumption and facilitating greater strength after concrete hardening. Used as a plasticiser, Hansa significantly improves the flow property of concrete.

sappi | Typek

A leading retail consumer brand of multi-purpose office paper.



Coated paper



Biomaterials



Uncoated paper