

Results for Q4 FY20 — the period ended September 2020

EBITDA (excl special items) US\$378 million FY19 US\$687 million	Loss (for the period) (US\$135 million) FY19 Profit US\$211 million	Net debt US\$1,957 million FY19 US\$1,501 million	EPS (excl special items) Loss of US¢ 5 FY19 US¢ 44
EBITDA (excl special items) US\$82 million Q4 FY19 US\$185 million	Loss (for the period) (US\$88 million) Q4 FY19 Profit US\$50 million	Cash generation of US\$88 million Q4 FY19 US\$173 million	EPS (excl special items) Loss of US¢ 4 Q4 FY19 US¢10

Commentary

The group's performance was severely impacted by the Covid-19 pandemic.

Management responded by focusing on the **preservation of liquidity**, lowering costs, deferring non-critical capital projects and reprioritising strategic actions.

Demand for graphic paper was particularly **hard hit** and unlikely to return to pre-Covid levels, accelerating the decision to close a paper machine at each of Stockstadt and Westbrook mills.

Lower DP volumes exacerbated an already tough operating environment for the segment, as historic low pricing levels persisted throughout the year.

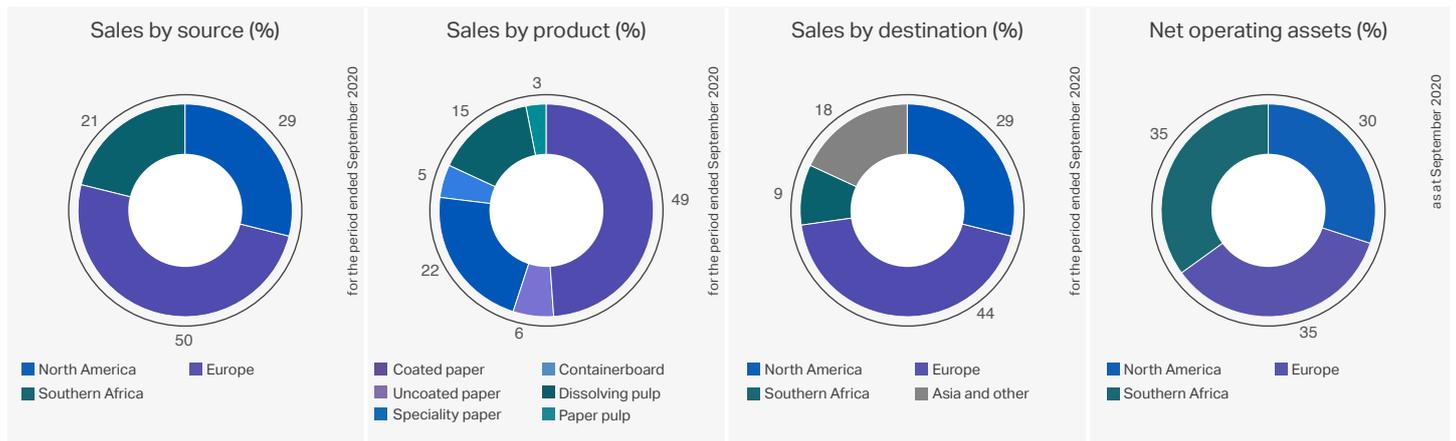
The highlight of the year was **strong growth** in sales and profitability for the **packaging and specialities segment**.

The **business has proven to be resilient** in difficult economic circumstances and supports our strategy to diversify the product portfolio into higher margin and growing segments.

	US\$ million	Quarter ended			Year ended	
		Sep 2020	Sep 2019	Jun 2020	Sep 2020	Sep 2019
Key figures	Sales	1,092	1,454	907	4,609	5,746
	Operating profit (loss) <small>excl special items¹</small>	(5)	109	(52)	57	402
	Special items <small>loss (gains)¹</small>	39	12	20	95	19
	EBITDA <small>excluding special items¹</small>	82	185	26	378	687
	Profit for the period	(88)	50	(73)	(135)	211
	Basic EPS (US cents)	(16)	9	(13)	(25)	39
	EPS <small>excluding special items (US cents)¹</small>	(4)	10	(10)	(5)	44
Net debt¹	1,957	1,501	1,977	1,957	1,501	
Key ratios (%)	Operating profit <small>excl special items¹</small> to sales	(0.5)	7.5	(5.7)	1.2	7.0
	ROCE ¹ <small>Operating profit excluding special items¹ to capital employed</small>	(0.5)	12.1	(5.6)	1.6	11.5
	EBITDA <small>excl special items¹</small> to sales	7.5	12.7	2.9	8.2	12.0
	Net debt to EBITDA <small>excl special items¹</small>	5.2	2.2	4.1	5.2	2.2
	Covenant leverage ratio	5.0	2.2	4.0	5.0	2.2
	Interest cover ¹	4.7	9.3	6.2	4.7	9.3
Net asset value per share ¹ (US cents)	299	359	326	299	359	

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

Underlying demand for most packaging and speciality products remains robust, driven by consumer preference and the shift from plastic to paper. First quarter sales volumes will be impacted in both Europe and South Africa by usual seasonal weakness and exacerbated by both the Ngodwana annual maintenance shut which was delayed from the third quarter of FY2020 and the scheduled Somerset annual maintenance shut. These shuts will have an estimated US\$30 million impact on profitability, predominantly linked to the packaging segment. Some products remain affected by weaker economic activity in certain regions or end use markets impacted by Covid-19.

Market conditions for DP have improved and pricing recovered during October. The Chinese market price has risen to US\$680/ton, driven by demand, tighter market balance and higher viscose staple fibre prices.

However, FY2021 Q1 sales volumes will only be marginally higher than the proceeding quarter due to the combination of the mill maintenance shut at Ngodwana, constrained production on the calcium line at Saiccor due to the closure of the Lignotech plant and DP pricing which still favours own consumption paper pulp production at Cloquet. Port and rail challenges in South Africa may additionally impact sales volumes for the quarter. We are evaluating opportunities to recover some of the lost DP production prior to the completion of the Saiccor expansion project.

Graphic paper demand continues to improve and a series of paper machine and mill closures or conversions in the industry, recently completed or imminent, should improve operating rates in the coming quarter and year.

However, a second wave of Covid-19 infections in Europe is leading to stricter lockdown conditions and a slowing of the recovery in many countries. Pricing is expected to move in line with variable cost movements.

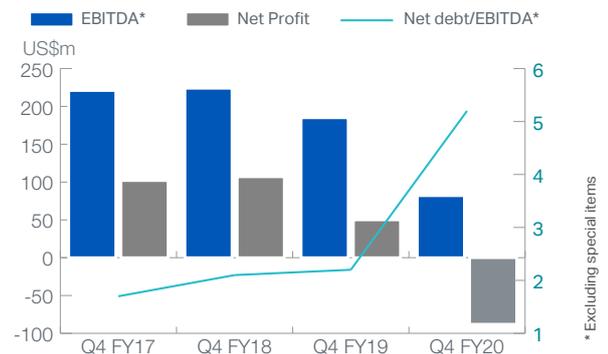
Current liquidity headroom in the group remains good, with cash deposits at the end of the quarter of US\$279 million and committed revolving credit facilities of approximately US\$582 million. We negotiated an extension of our credit facility covenant suspension period until September 2021. The first measurement of these covenants will now take place at the end of December 2021.

FY2021 capital expenditure is estimated to be **US\$370 million** and includes approximately US\$100 million related to the decision to delay the Saiccor expansion project and the postponement of major shuts at Saiccor and Ngodwana which reduced capital expenditure in FY2020.

In Q1 the underlying performance of the business will continue to improve, barring a widespread Covid-19 second wave, driven by the current recovery in DP and graphic paper markets. However, this will be offset by the impact on the packaging and speciality segment of the delayed shut at Ngodwana and the scheduled annual maintenance shut at Somerset. As a result, EBITDA in the first quarter of FY2021 is expected to be slightly below that of the fourth quarter of FY2020.

We remain encouraged by the resilience of our business and the opportunities offered by our strategic focus on the transition of the business towards higher growth segments.

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

Through collaboration and innovation we will grow profitably, using our strength as a sustainable and diversified global woodfibre group, focused on dissolving pulp, graphic, packaging and speciality papers, and biomaterials.

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

We will create long-term value for all stakeholders from relevant sustainable woodfibre products and through ongoing improvement in key areas.

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 — Q4



10 Production facilities
14 Sales offices

The impact of Covid-19 continued to be felt across Europe but there were **signs of a recovery in demand** as the quarter progressed. The usual seasonal improvement in market conditions also contributed to returning the business to a positive Q4 EBITDA.

Industry Q4 coated woodfree and coated mechanical shipments were 30% and 28% lower. Export markets, particularly Latin America, were more challenging. **Weaker demand necessitated 285,000 tons graphic paper machine production curtailment** to match demand and lower inventory levels. Average selling prices declined.

Packaging and specialties sales volumes were impacted negatively by the usual customer summer shut-downs.

Covid-19 had a significant effect on self-adhesives and digital solutions product sales.

Paperboard sales held up well, contributing to a 4% increase in traditional packaging volumes. Lost sales volumes arising from the temporary closure of PM3 at Alfeld following the fire on that machine, further impacted sales. A sales mix change during the quarter lowered net selling prices by 9% compared to the equivalent quarter last year.

Significant cost reduction benefits were offset by reduced machine efficiencies due to lower operating rates.



Berry Wiersum
Chief Executive Officer
Sappi Europe

North America — Q4



4 Production facilities
6 Sales offices

Excellent sales growth in the packaging and specialties segment and the start of a recovery in graphic paper sales volumes enabled the region to achieve EBITDA of US\$30 million following a Q3 loss of US\$7 million. Year-on-year profitability was reduced because of lower DP pricing.

Year-on-year **graphic paper sales volumes declined 25%**, but we were encouraged by a steady improvement in demand. Commercial downtime of 36,000 tons was implemented. Pricing continues to be adversely impacted by weak demand and lower input costs, with a year-on-year decline of 9%.

Packaging and specialties volumes grew 88% year-on-year, with strong growth in both the coated one side and paperboard packaging products, the latter doubling sales volumes in the past year. Average net selling prices were stable.

Casting release paper volumes continue to be affected by Covid-19 in key geographical markets, however sales volumes improved later in the quarter.

Lower DP demand resulted in additional paper pulp production at Cloquet. No commercial downtime was required at the pulp mill as DP demand recovered during the quarter. Average DP sales prices were 25% below those of last year.

Variable costs were 14% less than last year. Cash fixed costs were 6% lower than last year notwithstanding the acquisition of the Matane Mill.



Mike Haws
President and Chief
Executive Officer
Sappi North America

Southern Africa — Q4



5 Production facilities 6 Sales offices
529,000ha Plantations

The **business was significantly impacted** by lower DP volumes due to Covid-19, ongoing low DP prices and weak domestic paper markets, other than packaging.

DP sales volumes were 29% below those of last year, as a consequence of lower market demand and the corresponding decision to limit production on the calcium line at Saiccor. In total, production was negatively impacted by 55,000 tons.

The weaker US\$/ZAR exchange rate partially offset US\$ pricing that declined marginally during the quarter, resulting in a ZAR price that was 4% lower year-on-year.

Packaging and specialties volumes and pricing were flat year-on-year. The citrus season ended strongly, with good year-on-year growth, however increased containerboard imports constrained sales volume.

Newsprint and uncoated woodfree volumes continue to be impacted by Covid-19 side effects on the economy, declining 35% year-on-year.

Variable costs declined 3% year-on-year, primarily due to lower wood costs, offset by machine efficiency losses due to lower operating rates and the weaker exchange rate.

Fixed costs were 10% lower, mainly as the result of lower personnel costs.



Alex Thiel
Chief Executive Officer
Sappi Southern Africa

Our values As OneSappi, we do business safely, with integrity and courage, making smart decisions that we execute with speed.

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.

