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Media release

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Sappi announces results for the third financial quarter of 2023

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: *"Following the record profitability achieved last year, the group faced persistent challenges in the global economy and encountered ongoing weakness in paper and pulp markets. Specifically, the paper businesses experienced a significant downstream destocking cycle. Customers reduced their inventories in anticipation of lower prices, thereby affecting demand. In response, we proactively curtailed excess production in Europe and North America, implemented various cost-saving initiatives across our operations, and applied measures to optimise working capital. The profitability of the South African business was more stable, bolstered by the dissolving pulp business.*

Sappi delivered an EBITDA excluding special items of US$106 million against a backdrop of a challenging global economy and significantly weaker paper and pulp markets. Despite the difficult economic environment and the share buyback of US$22 million during the quarter, further progress was made towards our net debt target of US$1 billion. Net debt decreased by US$49 million from the prior quarter to US$1,176 million. A stronger Euro/US Dollar exchange rate resulted in Euro-denominated debt being converted at a higher rate and negatively impacted net debt by US$105 million for the year to date."

Looking forward, Binnie stated: *"Despite the challenging economic environment, we generated cash in the quarter and liquidity in the group remains strong. We are committed to our strategy to reduce exposure to graphic paper markets while investing for growth in renewable packaging, dissolving pulp and biomaterials. Despite the slow recovery of paper demand and notwithstanding continued margin pressure in all of our market segments, EBITDA in the fourth quarter is likely to be marginally above that of the third quarter."*

Financial summary for the quarter

- EBITDA excluding special items US$106 million (Q3 FY22 US$371 million)
- Net debt of US$1,176 million (Q3 FY22 US$1,530 million)
- Profit for the period US$40 million (Q3 FY22 US$199 million)
- EPS excluding special items 5 US Cents (Q3 FY22 39 US Cents)

Demand for dissolving pulp (DP) remained positive supported by sustained high operating rates for viscose staple fibre (VSF) and a recovery in pricing for alternative textile fibres such as cotton. However, the hardwood DP market price declined from US$920/ton to US$870/ton during the quarter, driven primarily by the weak Chinese Renminbi exchange rate against the US Dollar, relatively low VSF pricing and the sluggish global economy. Our mills were fully sold supported by long term contracts. Enhanced plant stability at the Saiccor Mill and the absence of maintenance shuts at the Ngodwana and Cloquet Mills resulted in improved production volumes for the segment. The higher sales volumes offset the negative impact of lower selling prices and the segment maintained flat year-on-year EBITDA margins.

Continued weakness in graphic paper markets during the quarter was driven primarily by the destocking cycle and negative consumer sentiment. Selling prices remained resilient at 5% above last year's levels, despite facing a 45% reduction in sales volumes compared to the prior year. Similarly, weak trading conditions and high inventory levels were observed in the packaging and speciality papers segment where sales volumes decreased by 26% compared to the prior year. The impact of the lower sales volumes resulted in reduced profitability in these segments.

In Europe the destocking cycle and uncertain economic outlook caused a 47% decrease in year-on-year sales volumes of graphic papers. The packaging and speciality papers segment also experienced a decline but at a relatively lower rate of 34%. Sales volumes in both segments were flat compared to the prior quarter signalling that the destocking cycle has potentially reached its lowest point.

In North America sales volumes of graphic paper reduced by 46% compared to the previous year and were 21% below the prior quarter. The contraction in sales volumes for packaging and speciality papers was comparatively less severe, with declines of 37% and 9% from the prior year and previous quarter respectively. In the pulp segment, overall sales volumes were marginally better than last year as bleached hardwood kraft (BHK) market sales were able to offset lower volumes for bleached chemi-thermomechanical pulp (BCTMP) and somewhat lower volumes for Verve.

Profitability of the South African business was stable relative to the prior quarter and significantly higher than the previous year. Higher sales volumes for Verve and a weaker Rand/US Dollar exchange rate offset cost inflation. Verve sales volumes more than doubled compared to the previous year due to improved plant stability and operating rates following an annual maintenance shut at the Saiccor Mill. Containerboard demand was lower due to a downstream inventory build as customers imported product at the end of 2022. Nonetheless, higher year-on-year selling prices offset cost inflation and improved margins for the segment.

The South African business continued to adjust to the challenges posed by poor domestic rail service, necessitating reliance on road transport routes.

Outlook

Weak global macroeconomic conditions and a slower than anticipated recovery in the Chinese economy continue to weigh on general consumer sentiment.

DP demand remains strong but there are mixed influences on pricing as the high VSF operating rates and a recovery in cotton prices are offset by lower paper pulp prices. DP market prices have reduced by a further US$30 per ton in July, however, the relatively low stocks of VSF in the value chain may provide some resistance against further price deterioration.

The paper businesses face short-term challenges as the destocking cycle is taking longer than expected. The uncertain economic outlook and reducing commodity prices will likely add pressure as customers are reluctant to build stock and are opting to manage their paper supply on a just-in-time basis. There are however indications that the destocking cycle is nearing completion and it is expected that demand will gradually improve throughout the fourth quarter. Sappi is well-positioned to benefit from a recovery.

Capital expenditure is estimated to be US$410 million for FY23 and includes US$79 million for the Somerset Mill PM2 conversion and expansion project. Management remains committed to continued disciplined capital allocation.

Despite the challenging market conditions, liquidity remains healthy and we will continue to diligently manage working capital through production curtailment and adapt our product mix to match demand.

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, 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 cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);*
- *the COVID-19 pandemic;*
- *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;*
- *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.