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Media release

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Sappi announces record earnings and resumes dividend payment; releases financial results for fourth quarter and full year

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: "I am very pleased with Sappi's exceptional performance this past year. Once again, the dedication and resilience of the Sappi team shone through, this year delivering EBITDA of US$1,339 million, well above the previous record set in FY2000 (US$1,052 million). The outstanding performance was particularly noteworthy within the context of a challenging macroeconomic environment. Significant headwinds included extreme weather-related events, lingering Covid pandemic effects in China as well as extraordinary global inflation, which was triggered by geopolitical turmoil and ongoing global supply chain disruptions. Amidst this volatility, we demonstrated adaptability and persistence and remained committed to our Thrive25 strategy.

Highlights for the year included strong demand and the implementation of higher sales prices to offset rising costs, combined with a focus on product and customer mix optimisation, supported margin expansion in all product segments. In addition, Sappi has resumed dividend payments, with a dividend of US 15 cents being declared.

The strategic priority to invest in packaging and speciality papers in recent years reaped rewards. The segment continued to grow and achieved record EBITDA of US$359 million compared to US$214 million in the prior year. Sales volumes increased by 9%, driven by robust global demand and renewed growth in Europe. However, sales were constrained by available capacity and low levels of inventory in South Africa and North America where demand exceeded supply.

Sales volumes for the pulp segment increased by 15% compared to the prior year on the back of strong market demand and improved logistics as we secured regular breakbulk shipping alternatives for our South African exports. Demand for Verve[1] during the year was particularly strong and sales were constrained by available production.

The graphic paper segment generated record EBITDA of US$650 million. The remarkable turnaround from the lows of 2020 was driven by a number of factors which led to an unprecedented global shortage of graphic paper. These included a surge in demand as economic activity normalised post-Covid and a very tight market balance due to a combination of chronic global logistical challenges and reduced supply.

Our Thrive25 strategic objective to reset the balance sheet was largely achieved. Net debt at financial year end decreased by 40%, from US$1,946 million to US$1,163 million as a result of the substantial cash generation and a positive translation impact of a weaker EUR/US Dollar exchange rate on the predominantly Euro-denominated debt. This is the lowest net debt level in over twenty years. In addition, during October 2022 Sappi repurchased US$206 million of the aggregate principal amount of its 2026 bonds via a tender offer. The transaction is fully aligned with the Thrive25 strategic objective to strengthen the balance sheet and yielded a capital gain of US$16 million and will reduce gross annual interest payments by approximately US$6 million per annum.

We recognise that global macroeconomic volatility and uncertainty remain significant risks to our business and have therefore set a new long-term strategic objective to target net debt of approximately US$1 billion. This materially lower debt level will provide more flexibility to withstand market downturns and, combined with strong anticipated future cash generation, should provide sufficient opportunity to fund growth in our targeted market segments.

Sustainability forms the foundation of our Thrive25 strategy as we strive to be a trusted, transparent, and innovative partner in building a biobased circular economy. We are on track to meet or exceed our Thrive25 sustainability targets. A highlight for the year was the validation of our 2030 decarbonisation targets by the Science Based Targets Initiative which re-enforces our commitment to climate action.

Looking forward, Binnie stated: “Deleveraging of our balance sheet has been material and combined with substantial cash reserves we are well positioned to navigate any market downturn. We remain encouraged by the increasing resilience of our business and opportunities for growth in our packaging and speciality papers segment.

Notwithstanding the inflationary cost pressures and weakening demand in some product segments, we anticipate that the EBITDA for the first quarter of FY2023 will be above that of the equivalent quarter in FY2022.”

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[1] Sappi Verve -brand name for dissolving pulp

Financial summary for the quarter and full year

- EBITDA excluding special items
  - For the quarter US$391 million (Q4 FY21 US$177 million)
  - For the year US$1,339 million (FY21 US$532 million)
- Profit for the period
  - For the quarter US$26 million (Q4 FY21 US$35 million)
  - For the year US$536 million (FY21 US$13 million)
- EPS excluding special items
  - For the quarter 44 US cents (Q4 FY21 11 US cents)
  - For the year 138 US cents (FY21 15 US cents)
- Net debt US$1,163 million (FY21 US$1,946 million)
- Resumption of dividend 15 US cents per share

The strong operating performance continued into the fourth quarter. Improved profitability for the pulp segment and another excellent performance by the North American region more than offset substantially higher raw material costs, principally energy in Europe. Consequently, the group delivered a new record quarterly EBITDA excluding special items of US$391 million, which was US$20 million above the previous record achieved in the prior quarter.

VSF and hardwood DP market prices dropped during the quarter responding to weaker demand in China related to Covid lockdowns, which negatively impacted operating rates for VSF producers, and general concerns around global inflation and recessionary impacts on textile demand. Despite these challenges, the profitability of the pulp segment improved substantially year-on-year with a 61% rise in EBITDA due to increased sales volumes and pricing.

The packaging and speciality papers' segmental year-on-year sales volumes were up 3%, constrained by an extended shut in South Africa during the quarter for a quality and product range upgrade to the containerboard machine at the Ngodwana Mill combined with low inventory levels in North America and South Africa following the strong sales earlier in the year. EBITDA for the segment grew by 37% compared to last year.

The graphic paper segment continued to benefit from favourable market conditions, which supported quarter-on-quarter sales price increases. However, extraordinary cost inflation in Europe, particularly for energy, reduced segmental margins relative to the prior quarter. Graphic paper sales volumes declined 4% year-on-year due to lower inventory levels and a shift towards packaging and speciality paper grades. Order activity began slowing towards the end of the quarter as consumer sentiment dampened with the inflationary pressures and challenging economic environment.

Despite the extraordinary tight market conditions in FY2022, the graphic paper markets are in long-term decline and indications are that demand in FY2023 will again be under pressure. A key element of our Thrive25 strategy is to reduce our exposure to declining graphic paper markets. Aligned to this objective and as previously announced, on 29 September 2022, Sappi signed an agreement to divest the Maastricht Mill in the Netherlands, the Stockstadt Mill in Germany and the Kirkniemi Mill in Finland. The decision was taken following a detailed and thorough strategic review and will significantly reduce our exposure to graphic paper markets. The proceeds will be used to reduce debt further, which will provide a platform for future expansion in our identified growth market segments.

Demand for packaging and speciality papers in North America is particularly robust and our customers are actively seeking to increase their volumes with Sappi. The Board has therefore approved a US$418 million investment at Somerset to convert PM2 from coated woodfree graphic paper to solid bleached sulphate board (SBS). The machine capacity will also be increased during the conversion from 240 000 tons to 470 000 tons per annum. The project is expected to be completed in early 2025 and will be funded from free cash flow from operations taking into account our net debt target of approximately US$1 billion. The capital expenditure will be phased over three years with the majority of the spend taking place in FY2024 and FY2025. This investment is fully aligned with our Thrive25 strategic focus to reduce our exposure to graphic paper and transition our portfolio to packaging and speciality papers, pulp and biomaterials.

Dividends

On 9 November 2022, the directors approved a dividend (number 89) of 15 US cents per share which will be paid to shareholders on 16 January 2023. The dividend will be funded from cash reserves. The group aims to declare ongoing annual dividends.

Outlook

Macroeconomic uncertainty has increased considerably in recent weeks. Ongoing lockdowns in China, the geopolitical turmoil in Europe and unprecedented inflation are increasing the likelihood of a global recession in 2023. This poses a risk to our business as weakening consumer sentiment and diminishing discretionary spend will likely weaken demand in our graphic paper and dissolving pulp segments in upcoming quarters. Order activity in these segments has slowed and destocking is occurring across the value chain. The Covid 19 pandemic demonstrated that the underlying demand for packaging and speciality papers is more resilient in economic downturns, particularly for product categories in food, beverage and healthcare. Furthermore, the shift from plastic to paper offers significant opportunity to grow this segment.

Rising input costs remain a risk in the year ahead although the prices for some raw materials, specifically natural gas and pulp, have decreased in recent weeks. We remain focused on maximising our operational efficiency and will balance our production with demand to proactively manage our costs and preserve pricing.

In South Africa, a fire at a municipal electrical substation in KwaZulu Natal impacted production at our three local mills for a few days in October 2022. In addition, a strike at Transnet[2] has negatively impacted DP supply chains once again and we anticipate that severe congestion at the Durban Port may impact sales volumes in the first quarter. Sales volumes in North America will be impacted by the annual maintenance shut at Somerset, which will reduce EBITDA by approximately US$18 million.

Capital expenditure in FY2023 is estimated to be US$430million and includes approximately US$70 million for the Somerset PM2 conversion project, US$60 million for sustainability projects and US$20 million capex spill-over from FY2022.

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;*

[2] Transnet is the state owned South African rail, port and pipeline company

- *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.