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Media release

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Sappi delivers solid performance for first financial quarter 2023

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: *"I am pleased with another strong performance from the Group which was well above pre-Covid levels and the best ever first quarter results. EBITDA of US\$290 million was 21% above the prior year and in line with guidance provided in the previous quarter. The positive results were underpinned by year-on-year pricing gains for paper products which offset cost inflation, lower sales volumes and delivered an EBITDA margin of 17.5%."*

The lower profits relative to the record levels in the prior quarter were reflective of the slowing global economy, which led to a softening in demand for our products, driven by the volatile and uncertain macroeconomic context including ongoing geopolitical turmoil, rampant inflation, rising interest rates and an underperforming Chinese economy as well as rapid downstream inventory accumulation in all our major product categories.

Looking forward, Binnie stated: *"Factoring in the protracted macroeconomic uncertainty, and coming off three quarters of outperformance, we anticipate a return to a normalised level of earnings in FY2023. The second quarter will likely be the most challenging with a recovery in earnings expected later in the financial year. EBITDA for the second quarter of FY2023 is expected to be below that of the first quarter."*

Financial summary for the quarter

- EBITDA excluding special items **US\$290 million** (Q1 FY22 US\$240 million)
- Net debt **US\$1,241 million** (Q1 FY22 US\$1,917 million)
- Profit for the period **US\$190 million** (Q1 FY22 US\$123 million)
- EPS excluding special items **30 US Cents** (Q1 FY22 20 US Cents)



Recent improvements in global supply chains resulted in a reduction in delivery lead times and a surge in customer inventory levels.

The same market dynamics of elevated retailer stock levels and general concerns over negative consumer sentiment adversely impacted demand for all textile fibres, placing pressure on the hardwood dissolving pulp market price which decreased to US\$900 per ton by quarter end. Despite this pressure Sappi's net average sales price for the pulp segment was 9% higher than a year ago, although this was offset by an 8% reduction in sales volumes.

Underlying demand in the packaging and speciality papers segment remained relatively stable. Selling price realisation more than offset the lower sales volumes and supported year-on-year margin expansion for the segment. Sales volumes were down 14% compared to the prior year driven primarily by the large customer inventory build.

A series of price increases in the previous year neutralised the impact of cost inflation and lower sales volumes in the graphic papers segment. Margins remained healthy but reduced relative to the highs of recent quarters. Sales volumes were down 31% compared to the prior year due with production rates optimised to match sales.

Profitability of the European region improved substantially compared to the prior year as pricing gains offset cost inflation. Lower demand occurred across all product categories and there was a significant inventory build. Selling prices remained stable quarter-on-quarter which protected margins.

The North American region delivered another strong performance with first quarter EBITDA of US\$114 million. Selling price gains offset significant cost inflation but sales volumes were negatively impacted by a broad-based softening in paper demand towards the latter part of the quarter.

Significant year-on-year cost inflation and slightly reduced sales volumes negatively impacted profitability of the South Africa region despite higher average US Dollar selling price for Verve (dissolving pulp) and a significant Rand/US Dollar exchange rate benefit on the Rand selling price. A fire in a municipal electrical substation disrupted production at the three operations in the KwaZulu-Natal region.

Outlook

Although the global economy will undoubtedly face significant challenges in 2023, the recent easing of the energy crisis in Europe, slowing of global inflation and the opening of the Chinese economy are positive economic indicators. Nevertheless, the short-term outlook is expected to be negatively impacted by the combination of the final phase of the downstream inventory destocking cycle, the resulting impact on sales volumes across all market segments and the relatively high cost base – albeit this is starting to turn.



The opening of the Chinese economy following the relaxation of Covid restrictions and strengthening of the Renminbi against the US Dollar represent upside potential toward the second half of the calendar year for the DP segment. VSF producer operating rates and pricing are slowly increasing and order activity in China has resumed in recent weeks.

Downstream inventory levels for our paper products have declined in recent months but remain at historically elevated levels. It may take a further few months before order activity normalises.

Cost inflation is expected to recede in FY2023. Specifically, lower European natural gas prices are expected to have a positive impact on European costs. Globally, paper pulp prices are expected to decline as new Latin American capacity enters the market. It should be noted that pulp prices in the US and Europe are lagging relative to Asia and therefore it may take time for benefits to be realised. Logistics bottlenecks are steadily improving, and delivery costs are anticipated to reduce through FY2023. Similarly, chemical costs have started to decline in recent weeks.

Capital expenditure is estimated to be US\$430 million for FY2023 and includes US\$70 million for the Somerset Mill PM2 conversion and expansion project.

The divestment of three European mills to Aurelius is expected to close during the second quarter. The cash proceeds and receivables will be collected in the second and third quarter.

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 cyclicity, 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.

