Q3 FY23

sappi

FY23 Q3 Results — the period ended June 2023

Highlights for the quarter

EBITDA excl special items	**Profit** for the period	**Net debt**	**EPS** excl special items
US$106 million	US$40 million	US$1,176 million	5 US¢
Q3FY22 US$371 million	Q3FY22 US$199 million	Q3FY22 US$1,530 million	Q3FY22 39 US cents

	US$ million	Quarter ended			Nine months ended	
		Jun 2023	Jun 2022	Mar 2023	**Jun 2023**	Jun 2022
Key figures	Sales	**1,326**	1,818	1,442	**4,428**	5,373
	Operating profit (loss) excl special items[1]	**41**	300	101	**367**	720
	Special items loss (gains)[1]	**(15)**	34	(7)	**(28)**	55
	EBITDA excluding special items[1]	**106**	371	167	**563**	948
	Profit (Loss) for the period	**40**	199	69	**299**	510
	Basic EPS (US cents)	**7**	35	12	**53**	91
	EPS excluding special items (US cents)[1]	**5**	39	11	**46**	94
	Net debt[1]	**1,176**	1,530	1,225	**1,176**	1,530
Key ratios (%)	Operating profit excl special items[1] to sales	**3.1**	16.5	7.0	**8.3**	13.4
	ROCE[1] Operating profit excluding special items[1] to capital employed	**4.4**	29.8	11.0	**13.6**	24.5
	EBITDA excl special items[1] to sales	**8.0**	20.4	11.6	**12.7**	17.6
	Net debt to EBITDA excl special items[1]	**1.2**	1.4	1.0	**1.2**	1.4
	Covenant leverage ratio	**1.2**	1.4	0.9	**1.2**	1.4
	Interest cover[1]	**9.6**	12.2	13.4	**9.6**	12.2
	Net asset value per share[1] (US cents)	**446**	421	447	**446**	421

1 See published results for detail on special items, the definition of the terms, reconciliations and supplemental information about key ratios.

Progress towards net debt target of US$1 billion

Despite the difficult economic environment and a US$22 million share buyback, we made further progress towards our US$1 billion net debt target. Liquidity remains healthy:
• US$504 million cash on hand • US$668 million in unutilised revolving credit facilities.

Commentary

The group faced **persistent challenges in the global economy** amidst **ongoing weakness** in paper and pulp markets.

The **paper businesses** experienced a **significant downstream destocking cycle**. Customers reduced their inventories in anticipation of lower prices, thereby affecting demand.

We proactively curtailed excess production in Europe and North America.

We implemented cost-saving initiatives across our operations, and applied measures to optimise working capital.

Bolstered by the dissolving pulp business, the South African business's profitability was more stable.

Despite a challenging economic environment, we generated cash in the quarter and **liquidity in the group remained strong**.

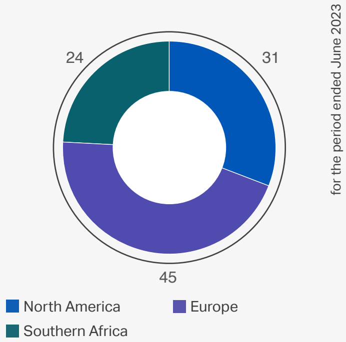
Demand for dissolving pulp (DP) remained positive — details overleaf.

Graphic paper market weakness was driven primarily by the destocking cycle and negative consumer sentiment. Selling prices remained resilient.

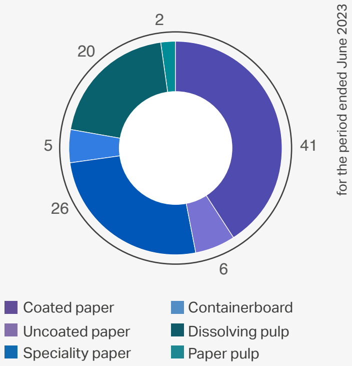
Weak trading conditions and high inventory levels were observed in the packaging and speciality papers segment

Net operating assets and sales distribution

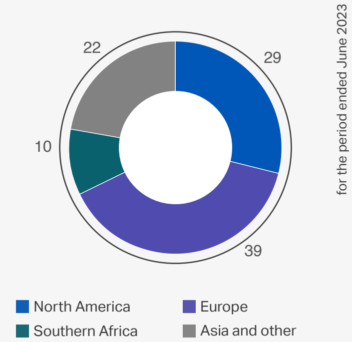
Sales by source (%)



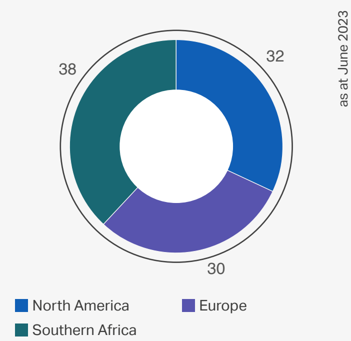
Sales by product (%)



Sales by destination (%)



Net operating assets (%)
(Ex Corporate)



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Outlook

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

Dissolving pulp (DP) demand remains strong but there are mixed influences on pricing as 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 FY2023 and includes US$79 million for the Somerset 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.

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.

Stockstadt Mill's future

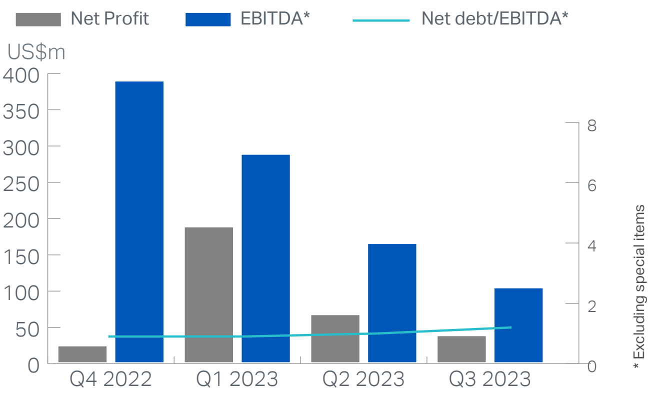
On 06 July 2023, it was announced that a consultation process has been initiated at the Stockstadt Mill involving management and the Works Council to discuss the future of the mill. This process includes considering the **potential closure of the mill and the sale of the site**. Consequently, the pulp mill and paper machine may cease operations. In light of these developments, we anticipate incurring a net asset impairment and additional costs related to restructuring and closure.

Positive dissolving pulp demand

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. Operations in the comparative quarter of last year were constrained by the floods in South Africa, and contributed to the pulp segment increasing sales volumes by 46% year-on-year. The higher sales volumes offset the negative impact of lower selling prices and the segment maintained flat year-on-year EBITDA margins.

Q-on-Q earnings, Profit & 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.

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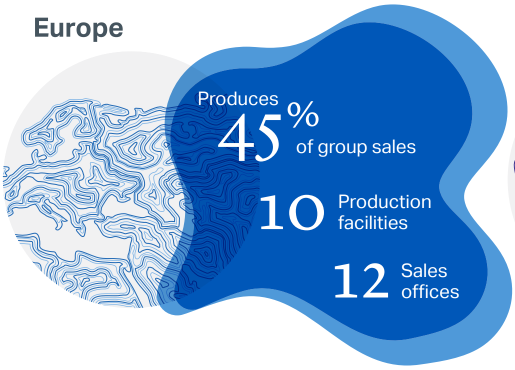
Europe



The weak European economy and ongoing downstream destocking created **difficult trading conditions** for our European business.

Production was proactively **curtailed** to align with lower market demand and working capital was managed accordingly.

Despite benefiting from a **4% increase** in year-on-year selling prices, the region's profitability was negatively impacted by variable cost inflation and lower sales volumes.

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%**.

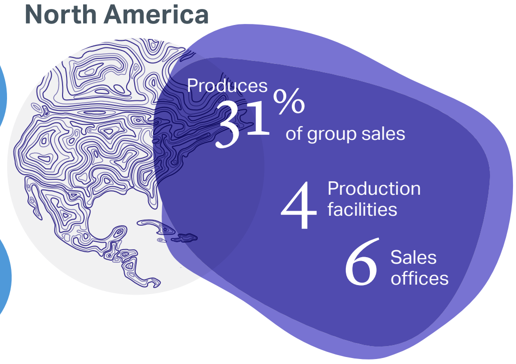
Sales volumes in both segments were flat compared to the prior quarter signalling that the **destocking cycle has potentially reached its lowest point**.

Variable costs across most input categories reduced during the quarter although this was partially offset by reduced operational efficiencies due to the extensive operational downtime.

Fixed costs were 7% below the prior year predominantly due to personnel cost savings.

Marco Eikelenboom
Chief Executive Officer
Sappi Europe

North America



Paper sales volumes declined sharply during the quarter due to ongoing destocking throughout the supply chain.

The region's **profitability was adversely impacted** by a combination of 30% lower sales volumes, higher variable costs and flat selling prices relative to the prior year.

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 paper** 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.

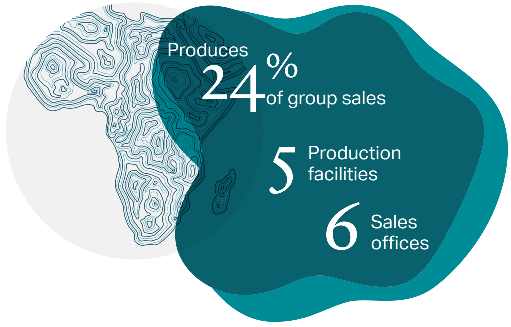
Profitability of the segment was impacted by a **reduction in selling prices** for both Verve and BCTMP, which dropped from the highs of the prior year.

Variable costs reduced during the quarter but the benefits were insufficient to offset the reduction in net selling prices, which decreased 7% compared to the prior quarter.

Fixed costs were 9% below the prior year primarily driven by reductions in maintenance and personnel costs.

Mike Haws
President and Chief Executive Officer
Sappi North America

Southern Africa



Profitability 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. Higher year-on-year selling prices offset cost inflation and improved margins.

Demand for office paper and newsprint slowed as improved global logistics and falling international market prices created an opportunity for imports. Higher selling prices offset cost inflation resulting in year-on-year margin gains.

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

Variable costs were 3% higher than the prior year driven by substantially higher wood, energy and chemical costs, which were partially offset by lower ocean freight delivery costs.

Fixed costs increased by 6%, predominantly due to higher labour 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.

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