

Sappi Limited  
 Registration number: 1936/008963/06  
 JSE code: SAP  
 ISIN code: ZAE000006284  
 Issuer code: SAVVI  
 (“Sappi” or “the company”)

### Third quarter results for the period ended June 2023

US\$ million	Quarter ended			Nine months ended		
	Jun 2023	Jun 2022	% Change	Jun 2023	Jun 2022	% Change
Sales	1 326	1 818	-27%	4 428	5 373	-18%
EBITDA excluding special items	106	371	-71%	563	948	-41%
Profit for the period	40	199	-80%	299	510	-41%
Net debt	1 176	1 530	-23%	1 176	1 530	-23%
Headline EPS (US Cents)	7	35	-80%	53	93	-43%
Basic EPS (US Cents)	7	35	-80%	53	91	-42%
EPS excluding special items (US Cents)	5	39	-87%	46	94	-51%
Net asset value (US Cents)	446	421	6%	446	421	6%
Dividend per share (US cents)	-	-	N/M	-	-	N/M

N/M - Not meaningful

Sappi is a leading global provider of everyday materials made from woodfibre-based renewable resources. As a diversified, innovative and trusted leader focused on sustainable processes and products, we are building a more circular economy by making what we should, not just what we can.

Our raw material offerings (such as dissolving pulp, wood pulp, biomaterials and timber) and end-use products (packaging papers, speciality papers, graphic papers, casting and release papers and forestry products) are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production facilities powered, in many cases, with bio-energy from steam and existing waste streams.

Together with our partners, Sappi works to build a thriving world by acting boldly to support the planet, people and prosperity.

#### Commentary on the quarter (1)

The Group faced persistent challenges in the global economy and encountered ongoing weakness in paper and pulp markets, leading to a reduction in EBITDA to US\$106 million for the quarter ended June 2023. 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. Despite the challenging economic environment, we generated cash in the quarter and liquidity in the group remained strong.

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 (2) 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.

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. However, the combination of reduced sales volumes and higher costs had an adverse affect on segmental EBITDA, leading to a substantial decline in margins compared to the previous year's highs.

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. Although year-on-year selling prices were higher and variable costs were lower, the impact of the lower sales volumes resulted in reduced profitability in the segment.

Earnings per share excluding special items for the quarter was 5 US cents, a decrease from the 39 US cents in the prior year. Special items increased earnings by US\$15 million due to a positive plantation fair value adjustment of US\$20 million offset primarily by insurance related adjustments.

(1) "year-on-year" or "prior/previous/last year" is a comparison between Q3 FY2023 versus Q3 FY2022; "Quarter-on-quarter" or "prior/previous/last quarter" is a comparison between Q3 FY2023 and Q2 FY2023

(2) Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group

### **Cash flow and debt**

Net cash generated for the quarter of US\$73 million was impacted by the lower profitability and was thus substantially below the US\$170 million in the prior year. Capital expenditure of

US\$62 million was aligned with the anticipated spend for the year. Working Capital reduced by US\$89 million.

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. Liquidity remains healthy with cash on hand of US\$504 million and US\$668 million from unutilised committed revolving credit facilities (RCF) in South Africa and Europe.

### **Post Balance Sheet Events**

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.

### **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 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.

On behalf of the Board  
S R Binnie  
*Director*

G T Pearce  
*Director*

03 August 2023

This results announcement is the responsibility of the directors. It is only a summary of the information in the full announcement and does not contain full or complete details. Any investment decision should be based on the full announcement accessible from 3 August 2023 via the JSE link and also available on the home page of the Sappi website at [www.sappi.com](http://www.sappi.com).

Copies of the full announcement may be requested by contacting Rosa Moodley on telephone: +27 (0)11 407 8515, email: [Rosa.Moodley@sappi.com](mailto:Rosa.Moodley@sappi.com).

The JSE link is as follows:

<https://senspdf.jse.co.za/documents/2023/JSE/ISSE/SAVVI/sappiQ323.pdf>

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