

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

Results for the fourth quarter and year ended September 2023 and cash dividend declaration

US\$ million	Quarter ended			Year ended ¹		
	Sep 2023	Sep 2022	% Change	Sep 2023	Sep 2022	% Change
Sales	1 381	1 923	-28%	5 809	7 296	-20%
EBITDA excluding special items	168	391	-57%	731	1 339	-45%
Profit for the period	(40)	26	N/M	259	536	-52%
Net debt	1 085	1 163	-7%	1 085	1 163	-7%
Headline EPS (US Cents)	(3)	37	N/M	50	130	-62%
Basic EPS (US Cents)	(7)	5	N/M	46	95	-52%
EPS excluding special items (US Cents)	6	44	-86%	52	138	-62%
Net asset value (US Cents)	438	417	5%	438	417	5%
Dividend per share (US cents)	-	-	N/M	15	15	0%

N/M - Not meaningful

(1) The condensed consolidated financial statements for the year ended September 2023 have been reviewed in accordance with ISRE 2410 by KPMG Inc. An unmodified review opinion has been issued.

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.

Year ended September 2023²

Against a backdrop of a persistently volatile and challenging macroeconomic environment Sappi delivered EBITDA excluding special items of US\$731 million for the year ended September 2023. The widespread disruption caused by ongoing geopolitical instability, weak global economic growth, rising interest rates, and an underperforming Chinese economy negatively impacted markets for our products. The unfavourable trading conditions faced in 2023 were further exacerbated by a prolonged period of downstream inventory destocking as buyers slowly worked through inventories that had been built up in the second half of 2022. In response to these headwinds, we concentrated on preserving selling prices, efficiently managed our capacity and inventories to optimise working capital and implemented various cost-saving initiatives across our operations, all of which positively contributed to the earnings performance.

Despite 2023 being one of the most challenging downcycles experienced in the pulp and paper industry, with demand for our paper products falling below that of the Covid-19 pandemic years, we achieved some significant milestones. The South African business delivered record EBITDA (in ZAR) and North America the second highest ever EBITDA. The Group generated significant cash which enabled a further reduction of net debt at year end to US\$1,085 million, the lowest level in 30 years.

Graphic paper demand declined sharply and remained weak throughout the year due to weak consumer confidence related to the slowing economy and an inventory destocking cycle that took longer than anticipated. Sales volumes declined 38% year-on-year and production curtailments were required to manage these weak demand dynamics. Selling prices were 14% higher than the prior year and remained resilient. However, cost inflation and operational inefficiencies associated with low capacity utilisation significantly eroded profitability. In response to the market overcapacity and in line with Sappi's strategy to reduce exposure to graphic paper markets, we made the difficult decision to close the Stockstadt Mill and initiated a consultation process for the potential closure of the Lanaken Mill shortly after year end.

The packaging and speciality papers segment faced similar weak trading conditions related to high levels of downstream inventory and muted consumer demand. Positive year-on-year pricing gains of 7% were insufficient to offset input cost inflation and a 22% reduction in sales volumes leading to a decline in the segment's profitability.

The same market dynamics of elevated stock levels and negative consumer sentiments dampened demand and pricing for textile fibres in the early part of the year. However, viscose staple fibre (VSF) operating rates in China improved steadily as economic activity resumed from the third quarter onwards. Operating rates in the VSF industry remained at a high level through the remainder of the year and downstream VSF inventories dropped below historical levels, which supported demand for dissolving pulp (DP). The hardwood DP market price³ fell more than US\$200 from the elevated levels of last year to reach a low of US\$840 in August. The movement was driven primarily in the early part of the year by high retail inventories and weak consumer sentiment and then in the latter part of the year by relatively subdued VSF

² "year-on-year" or "prior/previous/last year" is a comparison between FY2023 versus FY2022;

³ Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group

pricing and the weak Chinese Renminbi exchange rate against the US Dollar. Sales volumes for the pulp segment increased by 7% compared to the prior year but profitability was adversely impacted by the lower average pricing and cost inflation.

Special items for the year reduced earnings by US\$52 million. These included US\$274 million for the impairment of assets, restructuring and closure costs associated with the closure of Stockstadt Mill and the impairment of Lanaken Mill, which was partially offset by a US\$123 million positive plantation fair value adjustment and the reversal of European assets held for sale impairment from last year of US\$181 million.

Net finance costs for the year were US\$49 million, a significant decrease from the US\$97 million in the prior year due predominantly to lower debt levels.

Profit for the period of US\$259 million was below that of the record achieved for the 2022 financial year due to the sharp contrast in market conditions and the associated lower operating profitability.

Sustainability serves as the cornerstone of our Thrive25 strategy, as we strive to be a trusted, transparent and innovative partner in building a biobased circular economy. Regrettably, production curtailments significantly impeded our operational efficiency, causing us to fall short of our Planet-related targets for the year. We are pleased to have made significant strides in achieving our People-related targets and attained our best ever safety performance. We remain steadfast in our commitment to meet and surpass all of our Thrive25 sustainability goals.

Cash flow and debt

The Group continued to generate cash and reduce net debt in the year. Net cash generated for the period was US\$210 million, which included a working capital inflow of US\$178 million due to the lower operating activity compared to the prior year. Cash outflows included a dividend payment of US\$85 million and a share buyback of US\$22 million. In addition, a portion of the 2026 bonds was repurchased for US\$206 million and the SSA07 bond was settled for US\$60 million.

Capital expenditure of US\$382 million included US\$100 million for the conversion and expansion of Somerset PM2 to packaging grades.

Despite the lower profitability, net debt at financial year end decreased to US\$1,085 million. This was after taking into account a negative currency translation effect on our Euro denominated debt being converted at a higher rate, which increased net debt by US\$76 million for the year, and the US\$107 million returned to shareholders through the dividend and share buyback programmes. The closing net debt level is the lowest since the early 1990's when the company embarked on its global merger and acquisition strategy. At year end, liquidity remained healthy with cash on hand of US\$601 million and US\$650 million from unutilised committed revolving credit facilities (RCF) in South Africa and Europe.

The stronger Balance Sheet with a significantly reduced debt profile and healthy cash reserves provides us with flexibility to navigate the headwinds of cyclical downturns and positions the

business well to deliver on our Thrive25 strategy to reduce exposure to graphic paper markets while investing for growth in our target markets.

Fourth quarter ended September 2023⁴

Operating performance for the fourth quarter was ahead of expectations enabling the Group to deliver EBITDA excluding special items of US\$168 million, which was a marked improvement from the low of US\$106 million achieved in the prior quarter. A small recovery in graphic paper sales volumes and record pulp sales volumes combined with lower variable costs and currency exchange rate benefits in the South African business boosted profitability. Despite the improvement, the Group continued to experience challenging trading conditions related to the weak global economy and lingering customer destocking.

In a challenging environment where demand for graphic paper remained suppressed, sales volumes for the segment improved by 13% compared to the prior quarter. Year-on-year sales volumes were however down by 36% reflecting the ongoing macroeconomic challenges and necessitating production curtailments across the graphic paper assets in Europe and North America. The extended length of the weakness confirms a substantial erosion of demand for graphic paper that is unlikely to return. Selling prices came under further pressure during the quarter but the combination of cost savings and higher capacity utilisation provided some relief for the segment. Profitability was substantially down compared to the highs of the prior year but better than the third quarter.

The market conditions for the packaging and speciality papers segment were also impacted by high inventory levels and the unfavourable economic climate. Segmental sales volumes improved by 9% compared to the prior quarter but were 18% lower than last year. Profitability was further impacted by a 7% reduction in selling prices compared to the previous year which was only partially mitigated by a reduction in variable costs per ton.

Demand for DP remained robust during the quarter supported by high operating rates for VSF producers and low downstream VSF inventories in China. Additionally, textile fibre prices slowly increased and hardwood paper pulp prices shifted from their recent lows. These factors provided positive support for hardwood DP market prices, which turned upwards from August to finish the quarter at US\$864 per ton. Sales volumes in the pulp segment increased 10% year-on-year reflecting improved production at the Saiccor Mill and strong demand from our customers. The average sales prices for the pulp segment were 15% below the elevated levels of the prior year which eroded margins.

Earnings per share excluding special items for the quarter was 6 US cents, which was substantially below the 44 US cents in the prior year and indicative of the challenging operating environment and subsequent reduced profitability for the group. Special items for the quarter reduced earnings by US\$80 million, primarily due to the impairment of assets and restructuring costs for the Stockstadt Mill closure and the impairment of Lanaken mill offset by a positive plantation fair value adjustment.

⁴ “year-on-year” or “prior/previous/last year” is a comparison between Q4 FY2023 versus Q4 FY2022; “Quarter-on-quarter” or “prior/previous/last quarter” is a comparison between Q4 FY2023 and Q3 FY2023

Post Balance Sheet Events

On 10 October 2023, Sappi announced the conclusion of the consultation process for the closure of Stockstadt Mill and commenced a consultation process on the potential closure of the Lanaken Mill.

In terms of the Stockstadt consultation process, a social plan for the employees has been agreed. In addition, an agreement has been signed for the sale of the site. The closure of the Stockstadt site should be completed during the first calendar quarter of 2024. Once all closure elements are taken into account, the impact is expected to be cash neutral.

Dividends

On 08 November 2023, the directors approved a dividend (number 90) of 15 US cents per share which will be paid to shareholders on 15 January 2024. This dividend was declared after year-end and was not included as a liability at the end of the 2023 financial year and will be funded from cash reserves.

The 2023 dividend is covered 3.2 times by basic earnings per share, excluding special items.

Outlook

Persistent global macroeconomic challenges and generally subdued consumer sentiment continue to impact the demand for many of our products.

Dissolving pulp markets appear more positive as VSF operating rates continue to be strong and the differential between cotton and VSF pricing remains supportive. Hardwood DP market pricing has increased in recent weeks to US\$880 per ton. Additionally, paper pulp pricing has also moved into an upward trajectory, which will benefit our high yield pulp sales. DP sales volumes in the first quarter will however be lower than the prior quarter due to scheduled maintenance shuts at all three of our DP mills.

It has become apparent that demand for graphic papers has experienced a permanent structural decline. Sappi remains committed to our stated strategy to reduce exposure to graphic paper markets and will proactively manage overcapacity through conversion and expansion of the Somerset PM2 graphic paper asset to solid bleached sulphate paperboard in the US in 2025 and rationalisation of the European capacity through closure of the Stockstadt Mill and potential closure of the Lanaken Mill. It is anticipated that strategic action in the European region will significantly improve the capacity utilisation of the graphic paper assets and improve the fixed cost position of the business in the second half of the year.

The long-term favourable outlook for our sustainably produced packaging and speciality paper products remains unchanged, however in the short-term challenges persist. The destocking process in the segment is taking longer than expected and the macroeconomic landscape remains unpredictable, which is likely to continue to weigh on consumer sentiment. We therefore do not expect any meaningful recovery in the first quarter of the financial year. Sappi is well positioned to benefit from the turn in the cycle.

Variable costs have reduced from the peak in the first half of the 2023 financial year but still remain high relative to historical levels. Global pulp prices have started rising in recent weeks and wood costs remain elevated. Additionally, recent heightened geopolitical issues may cause additional volatility in energy markets. Cost inflation is therefore a risk in the coming quarters. We continue to proactively implement cost containment initiatives to mitigate the risk of higher costs. In the first quarter, the Ngodwana, Saiccor and Cloquet Mills will take scheduled maintenance shuts, which will have an estimated US\$40 million impact on Group profitability.

Capital expenditure for FY2024 is estimated to be in the region of US\$500 million including approximately US\$154 million for the Somerset PM2 project. Our capital investment programme is focused on operational efficiencies, enhancing our product offerings, improving our environmental footprint and growing our packaging business.

Deleveraging of our balance sheet has been material and combined with substantial cash reserves we are well positioned to navigate any market challenges in the coming year. We remain encouraged by the increasing resilience of our business and opportunities for growth in our packaging and pulp segments. Through our Thrive25 strategy we are committed to strengthening our competitive position and delivering sustained shareholder value.

Notwithstanding the gradual recovery in pulp and paper markets and taking into consideration the impact of the scheduled maintenance shuts, we anticipate that the EBITDA for the first quarter of FY2024 will be below that of the fourth quarter in FY2023.

On behalf of the Board
S R Binnie
Director

G T Pearce
Director

09 November 2023

Dividend Announcement

The directors have resolved to declare a gross cash dividend (number 90) of 15 US cents per share, payable in ZAR at an exchange rate (US\$1=ZAR) of 18.49135, being 277.37025 cents per share, for the year ended September 2023 out of income, in respect of Sappi ordinary shares in issue on the record date set out below.

The South African dividend tax (DT) rate is 20% and the net dividend payable to shareholders who are not exempt from DT is 221.89620 cents per share. Sappi currently has 558,849,083 ordinary shares in issue. The income tax reference number is 9175203711.

In compliance with the JSE Listing Requirements the salient dates in respect of the dividend are detailed below.

Currency conversion determined on:

08 November 2023

Declaration and finalisation date:	09 November 2023
Last day to trade to qualify for the dividend:	09 January 2024
Shares commence trading ex-dividend:	10 January 2024
Record date	12 January 2024
Payment date:	15 January 2024

Dividends payable to shareholders on the South African register will be paid in South African Rand and all dividends attributable to holders of ADR shares on the NYSE will be dealt with in accordance with their custody agreements in place with their local custodian.

Certificated shareholders who previously held their shares on the UK register, which has subsequently been discontinued, shall be paid in Pounds Sterling at the ruling exchange rate at the time.

No currency elections are permitted.

All shareholders need to ensure that their current bank mandates with their service providers are up to date. Furthermore, shareholders who have not yet done so, should submit their service providers with their tax numbers and other relevant information for dividend tax purposes. Where shareholders qualify for withholding tax exemptions, they need to ensure that such exemption applications have been lodged with their service providers.

Certificated and own name shareholders can call Computershare in South Africa on 0861 100 950 for assistance in this regard.

Share certificates will not be dematerialised or rematerialised from 10 January 2024 to 12 January 2024, both days inclusive.

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 09 November 2023 via the JSE link and also available on the home page of the Sappi website at www.sappi.com.

The JSE link is as follows:

<https://senspdf.jse.co.za/documents/2023/JSE/ISSE/SAVVI/sappiQ423.pdf>

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