Chief Financial Officer's report

GT Pearce
Chief Financial Officer (CFO)

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Section 1
Financial highlights

US$ million	2020	2019	% change
Sales	**4,609**	5,746	(20)
EBITDA excluding special items	**378**	687	(45)
Operating profit excluding special items	**57**	402	(86)
Profit/(loss) for the year	**(135)**	211	n/a
EBITDA excluding special items to sales %	**8.2%**	12.0%	n/a
Operating profit excluding special items to sales %	**1.2%**	7.0%	n/a
Operating profit excluding special items to capital employed (ROCE) %	**1.6%**	11.5%	n/a
Net cash (utilised) generated	**(257)**	1	n/a
Net debt	**1,957**	1,501	30
Basic earnings per share (US cents)	**(25)**	39	n/a

The sudden drop in demand in the capital-intensive Sappi environment focused the attention to managing liquidity and cash fixed costs. Cooperation from financiers of the business who understood the short-term challenges, became paramount. The effects of the pandemic forced Sappi to realign its attention and engage with lenders on the consequences of the new environment. During the early stages of the pandemic we negotiated a suspension of our covenants for a year – the agreement was subsequently extended by a further six months to September 2021. Fixed costs were critically reviewed and where possible maintenance shuts or high value interventions were curbed or delayed. Financing and the access to liquidity became the overriding theme as levels of debt securitisation funding dropped in line with the reduction in turnover. We offset the reduction with bridging facilities, private placements of long-term bonds and an increase in our South African revolving credit facilities (RCF). The initiatives provided the necessary breathing space to get through the lowermost demand levels during the May and June months. The ensuing progressive recovery alleviated the liquidity pressure as the business focus turned to volume recovery. The fiscal year ended with cash reserves of US$279 million and US$582 million available from committed RCFs. Net working capital as a percentage of sales was 10%, down from the June high of 17%.

Weak markets in our dominant segments constricted EBITDA margin by 4% points to 8%. Graphics and dissolving pulp (DP) volumes (excluding Matane Mill volumes) reduced by 20% and were partially offset by 7% growth in the packaging segment. The earlier investments to support the strategic direction of increasing capacity in packaging and speciality papers reduced the impact of the crisis and vindicated our decision to expand in these markets. It should be noted that DP volumes had recovered to available capacity by the end of the fourth quarter. The crisis accelerated plans to close or restructure parts of the business with announcements at our Westbrook and Stockstadt Mills resulting in restructuring and closure charges of US$34 million.

Net finance costs increased in line with expectations by 4% to US$88 million. The US$9 million tax charge includes a net impairment of the deferred tax asset of US$34 million as well as unutilised tax losses in Europe. Loss for the year was US$135 million (LY profit = US$211 million) and earnings per share excluding special items reduced from US44 cents to a loss of US5 cents. The directors have considered it prudent to temporarily halt dividends until such time as market conditions improve.

Cash utilised for the year of US$257 million includes the acquisition of the Matane Mill for US$160 million, tax payments of US$26 million and capital expenditure of US$351 million.

Segment reporting

Our reporting is based on the geographical location of our businesses, i.e. Europe, North America and South Africa.

The selected product line information is reviewed by our Executive Committee in addition to the geographical basis upon which the group is managed. This additional information is presented in this report to assist our stakeholders in obtaining a complete understanding of our business.

Exchange rates and their impact on the group's results

The group reports its results in US Dollar and, as such, the main foreign exchange rates used in the preparation of the financial statements were:

	Income statement average rates		Balance sheet closing rates	
	2020	**2019**	**2020**	**2019**
EUR1 = US$	**1.1195**	1.1282	**1.1632**	1.0939
US$1 = ZAR	**16.2265**	14.3464	**17.1311**	15.1563

Two of our three geographic business units (Europe and South Africa) have home or 'functional' currencies of Euro and ZAR respectively. The results and cash flows of these two non-US Dollar units are translated into US Dollar at the average exchange rate for the reporting period to arrive at the consolidated US Dollar results and cash flows. When exchange rates differ from one period to the next, the impact of translation from the functional currency to reporting currency can be significant.