

Tear Sheet: Sappi's €250M 2025 Senior Notes

South African pulp and paper group Sappi is offering €250 million in five-year senior notes to strengthen its balance sheet and provide liquidity headroom.

The deal has a non-call period of two years, and expected ratings of Ba2/BB by Moody's and S&P. The notes will be issued by Sappi's subsidiary Sappi Papier Holding. Pricing is expected Friday, May 15.

A [capital structure](#) prepared by Reorg can be found at the end of this tearsheet.

Debt Explained's tear sheet below is a synthesized legal and financial tool that quickly provides a concise summary of covenant capacities. In the next few hours the Reorg team will publish a detailed contextual covenant and structural analysis for investors. Please contact questions@reorg.com for an in-depth analysis.

Summary Covenant Facts	
<ul style="list-style-type: none"> • Credit Facility basket headroom of \$837.78 million will be available on the Issue Date - as the OM does not indicate that the group's existing debt under the OeKB Term Loan Facilities is deemed incurred under the Credit Facility basket, we have assumed such debt is incurred under "grand-fathered" debt basket • Accrued capacity of \$811 million available under the CNI build up basket but ability to utilize the basket may be limited by additional restrictions imposed by the RCF in connection with the group's Covid-19 related financial covenant testing holiday agreed with the RCF lenders • Up to €50 million worth of assets/rights of South African Restricted Subsidiaries can be disposed of in relation to the South African B-BBEE Act, with any cash/cash equivalents applied in accordance with the Asset Sale covenant 	
<p><i>Debt Explained's lawyers will separately publish a thorough analysis of the covenants, structure and the legal loopholes in the next few hours. For regulatory reasons, this tear sheet contains only key covenant facts and basket capacities. Please email questions@reorg.com to request a copy of the in-depth analysis.</i></p>	
How Much Leverage Can Be Added over Time?	
Sappi has \$1.794B of additional debt capacity at issue	
Ratio Debt	2.0x Fixed Charge Coverage Ratio
Minimum Debt Capacity at Issue¹	\$1794.24M (equivalent of 5.31x of leverage) <ul style="list-style-type: none"> • CF Basket Headroom - \$837.78M • CLO/PMO - \$200M • Guarantees of Management Advances - \$5M • JV Debt - \$50M • Debt of South African Restricted Subsidiaries - \$408.03M (equivalent of ZAR 7,500M converted at US\$1= ZAR18.381 as on May 11, 2020)

¹ This aggregate only takes into consideration the quantifiable baskets at issue, ignoring ratio-based and "grower" amounts (which typically match the relevant "grower"-basis at issue)

	<ul style="list-style-type: none"> • Guarantees of any management equity/stock option plans - \$36M (\$6M/year) • Counter-indemnity in respect of bills of exchange - \$32.43M (equivalent of €30M converted at €1= US\$1.081 as on May 11, 2020); B-BBEE Act debt - \$50M • General debt - Greater of \$175M and 3% TA
Headroom under the Credit Facility Basket at Issue	\$837.78M
Value Extraction through Restricted Payments or Permitted Investments	
Build-Up Basket Start Date	29/06/2009
Starter Amount in the Build-Up Basket	No
Any Accrued Build-Up Basket Capacity	\$811M
Ratio-capped baskets	Ratio-capped Restricted Payments: N/A Ratio-capped Junior debt repayments: N/A Ratio-capped Permitted Investments: N/A
Minimum Restricted Payments (payments to equity)	\$116M (0.34x of leverage) <ul style="list-style-type: none"> • Equity repurchases - \$30M (\$5M/year) • Loans/advances to management equity/stock option plans - \$36M (\$6M/calendar year) • General RPs - \$50M
Minimum Permitted Investments at Issue	\$355M (1.05x of leverage) <ul style="list-style-type: none"> • Management Advances - \$5M • JV investments formed in connection with the B-BBEE Act - \$50M • General PIs - Greater of \$300M and 4.25% T.A
Risk of Value Leakage from Asset Sales proceeds	
Can Asset Sale proceeds create Restricted Payments capacity?	No
Risk of Effectively Senior Debt (Secured on non-Collateral)	
Ratio-capped Permitted Liens	N/A

Debt Explained's lawyers will separately publish a thorough analysis of the covenants, structure and the legal loopholes in the next few hours. For regulatory reasons, this tear sheet contains only key covenant facts and basket capacities.

Minimum Permitted Liens at Issue	\$893.03M (2.64x of leverage) <ul style="list-style-type: none"> • CLO/PMO - \$200M • Liens on debt of South African Restricted Subsidiaries - \$408.03M (equivalent of ZAR 7,500m converted at US\$1= ZAR18.381 as on May 11, 2020) • General Permitted Liens - Greater of \$285M and 5% TA
Risk of Collateral Dilution	
Ratio-capped Permitted Collateral Liens	N/A
Minimum Permitted Collateral Liens at Issue	N/A
Minimum Permitted Super Senior Collateral Liens	N/A
Portability	
Portability	N/A
Portability Ratio test	N/A
Cost Savings/Synergies Adjustments	
Are Cost Savings / Synergies capped?	No
Any time horizon for Cost Savings / Synergies to be realised?	No time limit
Cost Savings / Synergies limited to certain contexts	Broadly applied when determining Consolidated Leverage but limited to acquisitions when calculating FCCR
Credit Support	
Guarantor Coverage on Issue	For the 12-month period ended March 2020: <ul style="list-style-type: none"> • 59% of EBITDA • 62% of Total Assets • 83% of Revenue
Security Coverage	N/A
Covenant Outliers	
Deal Outliers	Limited Condition Acquisition provisions are present

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A pro-forma capital structure, prepared by Reorg's financial analysts, is below:

Sappi Ltd				
<i>(USD in Millions)</i>	05/14/2020 Amount	Maturity	Rate	<u>EBITDA Multiple</u> Book
EUR/USD Receivables Securitization Facilities	347.0	Jan-31-2022		
Leases	97.0			
€350M 2023 Notes (senior sec.)	385.0	Apr-01-2023	4.000%	
€250M 2025 Notes (senior sec.)	270.0			
Total Sappi Papier Holding GmbH - Secured Debt & Leases	1,099.0			1.9x
Bank debt (senior unsec.) ¹	367.0			
€450M 2026 Notes (senior unsec.)	495.0	Oct-01-2026	3.125%	
\$221M 2032 Notes (senior unsec.)	221.0	Jun-01-2032	7.500%	
Trade Finance (short term)	87.0			
€525M RCF (senior unsec.)	-			
Other Debt	2.0			
Total Sappi Papier Holding GmbH	1,172.0			4.0x
DMTN Program (senior unsec.) - various maturities ²	127.0	Apr-01-2020		
Other debt	23.0			
ZAR 1B RCF	-			
Total Sappi Southern Africa Ltd	150.0			4.2x
Total Debt	2,421.0			4.2x
Less: Cash and Equivalents	(533.0)			
Net Debt	1,888.0			3.3x
Plus: Market Capitalization	693.0			
Enterprise Value	2,581.0			4.5x
<u>Operating Metrics</u>				
LTM Revenue	5,430.0			
LTM Reported EBITDA	573.0			
<u>Liquidity</u>				
RCF Commitments	642.0			
Plus: Cash and Equivalents	533.0			
Total Liquidity	1,175.0			
<u>Credit Metrics</u>				
Gross Leverage	4.2x			
Net Leverage	3.3x			

Notes:

Capital structure as of Mar.31, proforma for the proposed €250 notes issuance. Market capitalization as of May 14.

1. Maturity between 2021 and 2027

2. \$42M were repaid on April 16 from the proceeds of a \$42M drawing under a bank loan provided by a syndicate of South African banks, which will mature in April 2021. On May 13, 2020, ZAR300M worth of 3Y SUNs were priced under DMTN program in a private placement.

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Please contact Reorg at questions@reorg.com if you wish to speak to the lawyer or credit analyst who prepared the above tearsheet for you. We actively welcome your questions and feedback.

Reorg will also publish an in-depth covenant report and credit analysis tearsheet on this bond. We are happy to share our comprehensive legal and financial analysis with you, just email questions@reorg.com for a copy.

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