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Earnings Call

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Call Participants

EXECUTIVES

Don Devlin
Senior VP & CFO

Hans Bjorkman
Vice President of Investor Relations

John Sims
CEO

ANALYSTS

Daniel Harriman
Sidoti & Company, LLC

George Staphos
BofA Securities, Research Division

Matthew McKellar
RBC Capital Markets, Research Division

Michael Roxland
Truist Securities, Inc., Research Division

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Presentation

Operator

Thank you. Good morning. Thank you for standing by. Welcome to Sylvamo's Second Quarter 2026 Earnings Call. [Operator Instructions] As a reminder, your conference is being recorded. I'd now like to turn the call over to Hans Bjorkman, Vice President of Investor Relations.

Sir, the floor is yours.

Hans Bjorkman
Vice President of Investor Relations

Thank you, Lucas. Good morning and thank you for joining our call. Our speakers this morning are John Sims, Chief Executive Officer, and Don Devlin, Senior Vice President and Chief Financial Officer. Slides 2 and 3 contain important information, including certain legal disclaimers. For example, during this call, we will make forward-looking statements that are subject to risks and uncertainties. We will also present certain non-U.S. GAAP financial information. Reconciliations of those figures to U.S. GAAP financial measures are available in the appendix. Our website also contains copies of the earnings release as well as today's presentation.

With that, I'd like to turn the call over to John.

John Sims
CEO

Thank you, Hans, and good morning, everyone. I'm glad that you're on the call and so you know, I'm on Slide 4, that's where I'm starting. Our second quarter highlights include continuing to implement the previously communicated uncoated freesheet price increases to our customers across all our regions. We also advanced our lean transformation journey to embed continuous improvement into how we run the business, so performance improvement becomes employee-driven, systematic, and self-sustaining.

We kicked off our lean efforts in our Latin America business and have value stream mapping underway at our Mogi Guaçu and Três Lagoas mills to identify waste and unlock cost savings across end-to-end processes. In North America, we introduced lean at our Ticonderoga, New York, mill and our cut-size sheet plant in Sumter, South Carolina, and across corporate functions.

Lastly, we continue to make very good progress on our strategic investments at our Eastover mill, which we will discuss in more detail later on this call. Let's move to the next slide. Slide 5 shows our second quarter key financial metrics. 2026 is a transition year to work through the termination of the Riverdale supply agreement and the extended outage at Eastover.

Adjusted EBITDA more than doubled sequentially to $60 million with a margin of 7%. Adjusted operating earnings were $0.03 per share. Free cash flow was -$23 million, a $36 million improvement sequentially. And as in prior years, the majority of our free cash flow will be generated in the second half of this year.

Now I'll turn it over to Don to review our performance in more detail, Don.

Don Devlin
Senior VP & CFO

Thank you, John, and good morning, everyone. Slide 6 contains our second quarter earnings bridge versus the first quarter. In the second quarter, we earned $60 million of adjusted EBITDA compared to $29 million in the prior quarter. Price and mix were favorable by $32 million, reflecting the implementation of paper price increases in all regions, better mix in the Americas, as well as the implementation of pulp price increases in Europe. Volume increased by $3 million driven by seasonally stronger demand in Latin America. Operations and costs were favorable by $22 million, largely driven by green energy credits in Europe and lower overhead. Planned maintenance outage costs were unfavorable by $24 million due to scheduled outages in all regions.

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Input and transportation costs were unfavorable by $2 million as energy costs were stable while purchased wood in Latin America and transportation costs in North America were higher. These were partially offset by the non-repeat of a one-time charge of $10 million from International Paper's Riverdale mill due to high natural gas costs in the first quarter.

Let's move to Slide 7 to walk through the industry conditions. European industry supply and demand remains challenging. Pulp prices improved throughout the first half and now seem stable. We continue realizing paper price increases, and we communicated another paper price increase effective mid-June as costs continue to increase and margins are at unacceptable levels. We expect the realization to occur through the third quarter. In Latin America, we expect seasonally higher demand through the second half.

This should positively impact our volume and geographic mix. We continue realizing paper price increases to our export customers across other Latin American countries as well as the Middle East and Africa region, and should continue to see additional realization through the third quarter.

In North America, industry supply and demand dynamics have improved as 7% of the annual uncoated freesheet industry supply was removed with International Paper's Riverdale mill paper machine conversion. In the second quarter, we saw imports into North America increasing compared to the previous quarter, a reaction to the 10% global tariff window.

We also continue realizing paper price increases and expect to see additional realization through the third quarter. We expect the Middle East conflict to continue pressuring energy, chemicals, and transportation costs across our regions as we go through the year.

Let's move to Slide 8. As we move through the second half of the year, we expect better earnings across most of our key drivers. This slide provides some perspective to how we see the second half of the year as compared to the first half.

Price and mix should have a significant improvement with the price realization we've seen across all our regions and will continue into the third and fourth quarters. In addition, our mix in both Latin America and North America should be significantly better in the second half. Overall, we expect to have a $75 million to $85 million benefit from better price and mix compared to the first half.

Volume should have positive momentum given stronger seasonality in Latin America, which will be partially offset by less volume in North America due to the loss of the Riverdale volume and the extended outage at Eastover in the fourth quarter. Operations and other costs are also expected to be much better in the second half. Operational issues we had in the first half are now behind us with the exception of the debarking drum at Nymölla. Planned maintenance outages will be unfavorable by approximately $5 million as we execute our heaviest planned outage quarter and take the extended downtime at our Eastover mill to complete the paper machine investments.

Input and transportation costs are expected to be favorable with lower fiber costs in Latin America and Europe more than offsetting unfavorable energy, chemicals, and transportation due to the Middle East conflict across all regions. In total, we expect a much better earnings performance for the last six months of the year. I'll now turn it back to John to talk about our strategic investments at Eastover and our long-term focus. John?

John Sims
CEO

Thank you, Don. I'll pick back up on Slide 9. Our Eastover strategic investments, including our woodyard modernization and paper machine optimization and new sheeter, continue to make good progress. Starting with the woodyard, the hardwood line has been performing extremely well since May, and we're seeing improved reliability and chip quality. The woodyard softwood line startup remains on schedule for the first quarter next year.

The paper machine speed-up project remains on schedule, on budget, and will be completed during our fourth quarter maintenance outage. This will result in 60,000 additional tons of uncoated freesheet

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capacity annually, which will start to ramp up early next year. The benefits include reducing costs, improving our mix and efficiency, while enhancing service for our customers.

So to Slide 10. Also within our Eastover strategic investment, the new sheeter project continues to make good progress. The sheeter passed equipment acceptance testing in June, arrived in the U.S. a few weeks ago, and the teams are preparing for the installation. We expect $50 million of annual benefits from the paper machine speed-up and the new sheeter. We estimate roughly $30 million to $40 million of that in 2027.

Lastly, we completed a sale-leaseback transaction with a third party for our existing sheet plant to expand the attached warehouse by 300,000 square feet. The third party is investing the capital to expand the facility and will lease it back to us. The project will reduce supply chain costs, improve service to our customers, while providing additional flexibility.

We expect this expansion to be completed in the first quarter of 2027 and contribute upwards of $5 million in savings per year. These four projects will generate $55 million of benefit per year. These strategic investments are high-return projects which will generate incremental earnings and cash flow for the long run.

Let's move to Slide 11. In my letter to shareholders in January, I described the areas that define our success: safety and well-being, employee engagement, customer centricity, operational excellence, cost leadership, and sustainability. Let's go to Slide 12 to discuss these in more detail. As we aim to achieve world-class performance in the areas that matter to Sylvamo, we have set clear goals for each one. Today I want to share with you what we are working toward and how we will measure our progress to achieve these by 2030.

Safety and well-being is our most important responsibility. Our goal is to have a resilient safety culture in which serious injuries are eliminated. If we eliminate serious injuries, it will be because our employees truly care and are aligned on relentlessly pursuing excellence.

On employee engagement, we have nearly achieved world-class engagement with an employee Net Promoter Score of 46. Our focus is to be greater than 50, while we strengthen the capability and readiness of our teams and tap into their talents to help us achieve world-class performance.

On customer centricity, we are setting a new standard for customer experience and loyalty. We will measure it through our customer net promoter score and through our perfect order performance, delivering complete, on time, and without defects. We are targeting a 20-point improvement in Net Promoter Score and higher than 90% on the perfect order.

On operational excellence, we are targeting improving overall machine efficiency by 400 basis points. This is a measure of how well our assets run.

On cost leadership, we challenge ourselves to set an aggressive goal in order to drive margin improvement despite the significant inflationary cost pressures. Our goal is to achieve 3x to 5x our 2022 through 2025 average annual cash cost improvement rate. This will be enabled by our lean and digital transformation efforts.

Lastly, on sustainability, we'll continue to operate responsibly to protect forests, uplift communities and improve the planet every year. Underpinning all six are our talented team, lean management, and digital transformation.

I'll conclude my remarks on Slide 13. As you are aware, it has been a very dynamic year where we've been adapting and executing the initiatives that are under our control. We are focused on generating strong, sustainable results and long-term value by making disciplined, data-driven decisions that strengthen Sylvamo for decades to come.

We will do this by diligently executing our flagship growth strategy, adhering to our disciplined capital allocation, institutionalizing lean continuous improvement. As industry conditions turn, capital spending normalizes, and the benefits from our investments begin to materialize, we have the potential to generate annually over $300 million of free cash flow and greater than 15% return on invested capital.

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So with that, I'll turn the call back to you, Hans.

Hans Bjorkman
Vice President of Investor Relations
Thanks, John, and thank you, Don. Okay, Lucas, we're ready to take the questions.

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Question and Answer

Operator

We will now begin the question and answer session. [Operator Instructions] Your first question comes from the line of Daniel Harriman with Sidoti.

Daniel Harriman
Sidoti & Company, LLC

In North America, margin was up at 15% versus 10% in the first quarter. And I'm curious if you could add more color on what drove this improvement and how much was price and mix versus maybe lower sourcing costs from bringing products in from Brazil rather than Europe.

And then leverage finished the quarter at 2.2x with most of the free cash flow for the year expected in the back half. Can you give us a better idea of how much of the first half working capital build reverses and where you expect to end the year on leverage?

Don Devlin
Senior VP & CFO

Yes, Daniel, I'll take your second question first. This is Don, and good morning. So the working capital build will unwind by the end of the year mostly. And as we talked about in an earlier call, that's due to the Eastover machine speed-up project building inventory through what was first quarter, second quarter, and we'll start to draw down fourth quarter, it should be pulled out.

And your first question back to North America, the margin improvement from first to second quarter, it was largely price and mix. And yes, price and mix and lower operations costs and a bit of lower input costs. But the key driver is price and mix for North America going into Q2 from Q1.

John Sims
CEO

Just to give a little bit more color, Daniel, on the working capital. North America is where we built the biggest inventory. It's about 50,000 tons that we expect to draw down in the second half. We will draw down in the second half.

Operator

Your next question comes from the line of Matthew McKellar with RBC Capital Markets. Matthew, please go ahead.

Matthew McKellar
RBC Capital Markets, Research Division

It sounds like you're expecting lower North American volumes in the second half of the year, if I've understood your comments on Slide 8 correctly. Is that sales volumes or production? I ask what the bogey might be for North American volumes at this point?

Don Devlin
Senior VP & CFO

Yes, Matthew, thanks for the question. So on North America's volume, it will be both because both lower production and lower sales. And, you know, we have Riverdale's gone, that's not our production, but the supply from Riverdale is gone, but that'll impact sales in the second half. And of course, we've got the Eastover outage which is now longer than we thought. We originally planned for 45 days. It'll be a bit longer than that. So that'll reduce production as well for North America. And a bit of that flows through sales and volumes will be lower for those two main reasons.

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John Sims

CEO

And one other point to add, Don, is that during this tariff situation, with the IEEPA going away, we were able to take advantage of that and move on some volume from our Brazilian operations. But now with the new tariffs that are in effect, it's not economical. So we're actually bringing in less volume from Europe and Brazil than we expected. And so there'll be a little bit less than that.

Don Devlin
Senior VP & CFO

I think your second question relative to North American volume as well. If you think about the impact of Riverdale going away, so that supply is gone, and I think we go from what was about a little less than 100,000 tons this year. So that goes away. It was 90,000, I think, through April, and we won't have that in '27.

But yet we'll have the speed-up from Eastover. And the plan from the speed-up was a total of 60. We won't get all of that next year as we'll be ramping up once we come out of the project in the fourth quarter. But eventually those two things will be a net 40 down.

Matthew McKellar
RBC Capital Markets, Research Division

Okay, so if I think about the Q4 '25 presentation where we talked about 1.17 million tons in North American sales, I think it was. The variance is primarily a longer outage at Eastover and then less volumes coming in from Latin America and Europe than you'd anticipated?

John Sims
CEO

That's right. We also got slightly less tons from Riverdale, which we already experienced. So that, at Riverdale, I think in that slide, we were assuming 100,000 tons before they converted, and they delivered about 90,000. But that impact's already been felt.

Matthew McKellar
RBC Capital Markets, Research Division

Okay, got it. Next, it sounds like you have pricing as a tailwind across each segment into Q3. Could you maybe spend a minute just running through what price is currently announced and pending in the markets? Maybe talk about how price should trend sequentially by region, either on average or as we exit Q3 in comparison to where you were in Q2?

Don Devlin
Senior VP & CFO

Yes. So Matthew, I'll start with how we see the price in the second half. So we said $75 million to $85 million incremental, which is both mix and price. I'd say 70% of that is price. And the majority of that is North America and then Europe as well, which we will see some flow through. And your second question -- can you repeat your second question?

Matthew McKellar
RBC Capital Markets, Research Division

Yes, it was kind of tied together. It was, I mean, what is announced depending on the markets and then, you know, how pricing trends sequentially by region from Q2 into Q3? however you'd like to express that.

John Sims
CEO

Yes, so I think we have a third price increase that's going through in Europe. So that's being implemented right now. We're actually seeing that in the month of July. So we'll see that flow through. And LATAM,

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we're seeing in the OLA markets and MEA. And that's being realized in the third quarter, we're seeing that now.

And the same thing with the second price increase that we had in North America, that's being mostly implemented in the third quarter. So most of these price, you know, the $75 million to $85 million that Don talked about, a lot of that pricing is, we're seeing that flow through in the third quarter. Then that'll carry that, you know, we'd be relatively flat and carry into the fourth quarter.

Matthew McKellar
RBC Capital Markets, Research Division

Okay, perfect. Last for me. On Slide 8 again here, under input and transportation costs, it sounds like lower fiber costs will only partially be offset by higher energy, chemicals, and transportation costs. It sounds like that benefit is specific to Europe and Latin America. Could you help us understand what's happening with fiber costs and how they're favorable in the back half?

Don Devlin
Senior VP & CFO

Yes, Matthew, and I'll start with Europe. So, you know, we've had a deliberate effort, especially at our Nymölla mill to reduce fiber costs there. And I think a lot of what we're seeing in the second half and into the fourth quarter is the benefits of that. Both market decreases and actions we've taken. So we'll see that benefit second half in Europe.

And in Latin America, we had some higher costs in Q2 related to some of our outside wood purchases. They were, I would say, unusual, and we don't expect those to occur again in the second half. So we'll be normalized in Latin America. As you know, most of our Latin American fiber is our own make, own produce.

John Sims
CEO

Just to be maybe a little bit more specific. We've seen a decrease of about 20% since its peak in the fourth quarter last year, but it takes six months or so for it to start to impact our operations, and that's why we're seeing it in the third quarter.

Operator

Your next question comes from the line of Mike Roxland with Truist Securities. Mike, please go ahead.

Michael Roxland
Truist Securities, Inc., Research Division

I think about 18 months ago, I guess you hired a new head of EU. And then you also, that was subsequently followed by a mention of a decision on the EU strategic review. So that really implies then a timeline that you'll have a decision made regarding the EU and what's happening with your European operations around end of year. So just, can you give us an update to where that process stands? What the different options are in terms of, do you think you're going to continue to put money into those two assets, or are you continuing to look at shutting them or selling them?

Because from our understanding, the cash cost of actually closing the asset seems to be manageable and would roughly imply a two-year payback and probably would be the most accretive option for shareholders. So any color you have on European operations and your plan there?

John Sims
CEO

Yes, Mike, I think you characterized it correctly in that we said that we were not happy with the performance with our European operations, but this time last year we made a significant management change because we wanted to see an accelerated performance. And I have to say that we made a great

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change. We're seeing accelerated performance. We're focusing on our strategy there, which is mix improvements when enabled by the investments we made at our Saillat mill.

We're actually ahead of plan there. We're also looking at implementing significant cost reductions that we're seeing at Saillat and Nymölla, increased productivity and also efficiency, and then we just talked about the wood cost. They align that with our strategy. It's being executed and being executed much better and well.

But as we said, the conditions are difficult in Europe, and we're looking at the long term, are we satisfied with where we think we can get? And we probably would be looking at somewhere in 2027 if we're not satisfied with the outlook that we've got, that we may pursue other options. And those other options are just about essentially everything that you named. It's not like we're starting, I mean, we've been looking at that, and probably in 2027 we'll make the call.

Michael Roxland
Truist Securities, Inc., Research Division

Got it. Okay, so a little bit longer than the 18 months that you initially outlined. Do you think it's going to be early 2027 in terms of making a determination? And then just one quick thing, John, in terms of the cost reductions that you've achieved there, what are you ultimately targeting? Like you've achieved a certain amount already, what are your targets in terms of improving the overall cost structure of Europe?

John Sims
CEO

Well, I mean, when we look at what we're targeting, we probably need somewhere between $50 million or so so we can be where we are. And it's not just cost reduction, it's mix improvement, it's other things that go into that to get us significantly above cash positive on a mid-cycle basis, greater than cost of capital returns.

And yes, I don't want to lock myself down into -- because we're making and looking at -- our focus is on Europe. We understand that the issue. So I don't want to lock down the timeline. Things could be sooner, things could be later. You know, it depends on how things play out, but I don't really want to commit to a certain date.

Michael Roxland
Truist Securities, Inc., Research Division

Totally understand. Two quick questions, and then I'll just turn it over. You guys mentioned $75 million to $85 million from better price mix in the second half over the first half. Any way to help quantify the benefit from better volumes, better ops and costs, better input costs? Any way to just quantify that in the second half versus the first half?

And then the second question, the poison pill ends in November. What's your plan regarding the poison pill? I mean, and if you have a great good relationship with your largest shareholder and they're interested in purchasing more shares, why stop them?

Don Devlin
Senior VP & CFO

So, Mike, relative to the second half quantifying volume, so we wanted to give analysts and investors a sense of the $75 million to $85 million on price and mix because one, it's big, two, we're confident prices are in place and we'll see that carry through. We're confident on the planned maintenance outages. That's something that we typically execute well. On the volume and ops and other costs inputs, there's more uncertainty. We are leaning in, we're confident in our forecast, but we chose not to provide specific guidance there.

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John Sims
CEO

And to your other question about the shareholder rights plan. The plan remains in place. The board hasn't made a decision yet on what we're going to do in terms of when it does expire at the end of November. That'll be something we'll address with the board when we meet in September.

Operator

Your next question comes from the line of George Staphos with Bank of America Securities Inc., George, please go ahead.

George Staphos
BofA Securities, Research Division

I'll ask two questions, and then I'll come back in queue. First of all, we appreciate you actually providing the pricing guidance that is helpful. John, Don, if I heard you correctly, most of that hits in 3Q, it incorporates what you have in the market, and there's not so much of a tail into fourth quarter. Did I correctly summarize that? Or what would you do to modify, add, correct to what I just relayed? And again, thanks for the pricing guide on that. We asked for that last quarter.

Don Devlin
Senior VP & CFO

Yes, so George, thanks for the question. So it'll flow a little more evenly. The way John described those price increases is right, depending on how it flows through the quarter for each of the regions, but we will in 3Q versus 4Q relative to price and mix, it's probably slightly more in Q4 than Q3.

George Staphos
BofA Securities, Research Division

Would you be at a full run rate, recognizing it's not the full year, but would you be at a full run rate on what you have in the market as you're exiting fourth quarter? Would that be roughly what you'd be contemplating there?

Don Devlin
Senior VP & CFO

Es. Yes. Yes, we would. So North America definitely be at the run rate by fourth quarter, end of fourth quarter. LATAM as well, and Europe, that would be the expectation.

George Staphos
BofA Securities, Research Division

Okay, my second question. We noticed the tax rate moved up a little bit. In terms of your guide, that can be a lot of different things. It's probably mix. But could you help us understand why the effective rate moved up a couple points? I'll come back.

Don Devlin
Senior VP & CFO

Yes, George, that is mainly due to a Brazil valuation allowance that we took on a deferred tax asset in our Brazil export entity. And the reason we did that, it was related to the VAT rules are changing in the future, and we merged two entities to really take advantage of $30 million of VAT tax credits we have in that entity. And it came at the expense of this valuation allowance for deferred tax assets. So $30 million in VAT credits and it was approximately $9 million for this expense.

John Sims
CEO

Okay, but we would have stranded -- I was going to say, we would have stranded that $30 million of tax credits had we not made that move this year before the law changes.

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George Staphos
BofA Securities, Research Division

Okay, but it implies no change in terms of mix or for that matter your ongoing profitability based on what you were at last quarter?

Don Devlin
Senior VP & CFO

That's correct, George, yes.

Operator

[Operator Instructions] Your next question comes from the line of Matthew McKellar with RBC Capital Markets. Matthew, please go ahead.

Matthew McKellar
RBC Capital Markets, Research Division

Just one more for me. I thought Slide 12 was pretty interesting. So I think about the more kind of operational focus items there, operational excellence, cost leadership, and maybe to some degree customer centricity. How much of that, I guess, do you need to get right to get to your $300 million free cash target?

John Sims
CEO

It's a good question because we think about it in terms of the -- to achieve what we want to do. We want to be there across all these metrics, but in terms of the $300 million, probably the most important area for us its two. One is the cost leadership. We need to increase the rate at which we can and the level that we can reduce cost given these high inflationary environments we've had across all regions and input costs.

And additionally, I think it's important with our customer centricity. I mean, it's very important that given our strategy, where the flagship growth strategy is and where we want to run our assets at the -- full capability, we need to make sure that our customers, we have intense customer loyalty as the market continues to decline. And so it's very important that the customers that we build and serve our customers to a level that's well above their expectations.

Operator

Your next question comes from the line of George Staphos with Bank of America Securities. George, please go ahead.

George Staphos
BofA Securities, Research Division

Two quick ones. Number one, guys, I remember last quarter the update relative to the earnings impact from the footprint alignment related to Eastover. There was effectively a $20 million add back for the view that you'd be bringing in some tons, I remember mostly from Brazil, to help on your volume and it would be a bit more economical.

Obviously with tariffs changing again, maybe that situation has changed and I think you implied it or commented to it in one of the earlier questions. Can you update us on where that stands? And then there was a comment in the slide about Eastover and the softwood line. I was just curious, how are you using softwood in the mix out there? I'll come back.

Don Devlin
Senior VP & CFO

So George, I'll take that first question. So based on the tariff changes, we will not be able to bring in as much product from Brazil as we anticipated last quarter. So it looks like we'll be back near that $85 million estimate that we provided back in February from our Q4 call. So when we said $20 million, it's essentially

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gone away from Brazil rather.So back to the $85 million that we originally estimated.

John Sims
CEO

Yes, George, and to your question about the softwood, we really have two lines in terms of our wood fiber that we supply the mill, both hardwood and softwood. And generally we put about 30% to 40% softwood in the products, and mostly that's in the converting grades, which need strength, envelope grades and stuff.

George Staphos
BofA Securities, Research Division

Yeah, I forgot about you had some grades used for converting. I will turn it over. I'll come back.

Operator

Your next question comes from the line of Mike Roxland with Truist Securities. Mike, please go ahead.

Michael Roxland
Truist Securities, Inc., Research Division

Just two quick ones. First, can you talk about the impact on the U.S. market from additional Canadian tariffs? I think the U.S. imports around 7% of supply from Canada. And so I'm just wondering what the new tariffs, if and when they're implemented, would mean for additional tightness in the U.S. market.

Second question, just wanted to find out from you, your most profitable Brazil mill is not backward integrated. The Mogi mill is backward integrated and losing money. So can you remind me why it's important to be backward integrated into pulp in Brazil? And what I would also note is that, there was an article recently that a domestic U.S. mill has decided to rely on market pulp to produce paper and discontinue the use of internal pulp and that's actually improved their return profile. So any color you have on why the integration is necessary in Brazil?

John Sims
CEO

Yes, Mike, when you think about the process to produce paper, overall integrated mill. Not only are you fully integrated, are you using wood to produce the fiber, but you also use that process of reclaiming the chemicals. So you end up producing your energy, both electricity and steam, from the process of cooking the wood. And when you add that together collectively, typically a much lower cost way to produce the products that we make, uncoated freesheet, if you have a good source of wood.

Given the competitive situation where you actually may have high cost wood and relatively low cost energy potentially, that may make sense, but where you have low cost wood, it's going to make more sense to be fully integrated. Três Lagoas is a non-integrated mill, but it has a unique position being attached to a pulp mill. So unlike buying market pulp and then having to repulp that and put it back into your processes, we get them directly from the pulp mill, from the Suzano mill. We get that in a wet slurry, so no transportation costs, no repulping yet.

And also we have an agreement with the Suzano mill to provide steam and energy at very attractive rates. So yes, that makes that situation down in Três Lagoas. It may not be the highest margin business we own, but it certainly is the highest cash generation business because also you don't have the capital cost on the back end of the mill.

Don Devlin
Senior VP & CFO

I would add, John, and for Mike, for your benefit. So, Luiz Antonio is actually our lowest cost mill, even compared to Três Lagoas. And John's comment around on a cash basis is important because you've got a lot less equipment at Três Lagoas, but Luiz Antonio fully integrated using fiber is our lowest cost.

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John Sims
CEO

You asked about the impact on the Canadian tariff, and that was the tariff that was applied was on a very narrow product line of uncoated freesheet. And as you mentioned, it's imported or exported or comes into the U.S. at a very small volume. So the impact of that on the North America market is minuscule from the tariff perspective.

Operator

Your next question comes from the line of George Staphos with Bank of America Securities Incorporated. George, please go ahead.

George Staphos
BofA Securities, Research Division

Last two from me, one on Europe and one on the bridge into third quarter. So for Europe guys, can you, I think you're answering it to Matt and I might've missed it, but have you quantified what benefits you're getting from improved fiber in Nymölla or -- with a reasonable time period, like in the next quarter or two, annualized what kind of benefit on fiber you expect to get in Nymölla?

Relatedly, what are you seeing in the pulp markets in Europe right now and what it's doing to the cost curve, especially for the non-integrated guys. So, that's question one broadly.

Question two, if we think about what you reported for 2Q, you did $60 million. Again, thank you for the pricing guide. Let's say you get half of that $75 million to $85 million, let's call it $40 million of the midpoint of $80 million, right? You have maintenance which comes down $40 million, I believe, 2Q to 3Q, again correct me if I'm wrong. So that's an $80 million, should we assume that the Brazilian tons that are not coming in, that negative $20 million offsets, you know, whatever volume and ops benefit you'd get. So basically we're looking at an $80 million benefit, 3Q versus 2Q, you know, what other good guys might help you add to that total?

Don Devlin
Senior VP & CFO

Okay, it's a lot packed in there, George. Yes, yes, I appreciate that. So on Europe, let's talk about fiber. So relative to pulp, what we're seeing with pulp are pulp prices coming up, but probably to a stable point. And relative to the non-integrated players, today there are fewer non-integrated players in Europe than there were some years ago.

And I think what you traditionally saw where when pulp went up it helped to put paper prices up, we're not seeing that as much anymore. Operating rates are still low. Pulp has come up somewhat, and we've gotten some traction on price, but I think there's less relationship there. And, pulp is up EUR 112 a ton, sorry, say July year-to-date and prices are not up that much.

George Staphos
BofA Securities, Research Division

Okay. Relatedly, Nymölla and then the bridge to 3Q?

John Sims
CEO

I think George, we're not going to, what I said is that wood costs have come down about 20%. But we're going to see the impact of that, like we're starting to just start to see the impact of that in the third quarter, and that'll carry through through the rest of the year.

George Staphos
BofA Securities, Research Division

And the bridge...

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John Sims
CEO

The bridge.

Don Devlin
Senior VP & CFO

Yes, back to your, you're looking for more specifics on each of these, the buckets, if you will, for second half.

George Staphos
BofA Securities, Research Division

Yeah, I gave you two round numbers to work.

John Sims
CEO

Yes, and when I look at numbers at a very quick level, I mean, directionally, I would say you're in the ballpark where we would think. And of course there's some uncertainty around the input costs with the war, but generally that's right. The other thing too is, and maybe we need to talk about this in the volume and stuff. So we shipped the volume when the IEEPA tariff went away, we shipped, we made a change and moved from instead of importing in from our European operations, we imported in from Brazil.

We've had to stop that due to the recent tariff implications, but there was volume that was shipped into Brazil and not sold, right? Will be sold in the second half, I'm sorry, to the U.S. And roughly, that means that you know the earnings for Brazil understated, and we're going to see the impact of that in the second half in the mix. And it's roughly $9 million to $10 million. And that's not all going to hit the third quarter that will -- as we sell it, it will be third and fourth quarter.

Operator

Thank you very much. We have reached the end of the Q&A session. I will now turn the call back over to John Sims for closing remarks. John, please go ahead.

John Sims
CEO

Again, thank you for being on the call and thank you for the questions. We said and I said that '25 and '26 would be low points in our free cash flow generation, and I would say that the first and second quarter were probably the nadir of that. But this is a transition year, 2026. And it is going to be a tale of two halves, which we've talked about during this call. This year, we're executing our most significant investments at our Eastover mill, and we'll drive a lot of value in the years to come.

We've also launched our lean transformation, focused on exceeding our customers' expectations and driving improvement and accelerating that across all our operations. We are focused on the long-term value creation and will generate strong, sustainable results by diligently executing our flagship growth strategy, adhering to the disciplined capital allocation principles, becoming more customer-centric, and institutionalizing lean management principles.

We have a lot of confidence that we believe that as the industry turns, particularly in Europe and on the OLA markets, our capital spending normalizes and the benefits from our investments begin to materialize. We have the potential to generate annually greater than $300 million in cash flow, and greater than 15% returns on invested capital. So thank you for being on the call.

Hans Bjorkman
Vice President of Investor Relations

Thanks everybody. Have a great day and a great weekend. Bye-bye.

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Operator
Once again, we would like to thank you for participating in Sylvamo's Second Quarter 2026 Earnings Call. You may now disconnect.

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