Sylvamo

Moderator: Bjorkman, Hans

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OPERATOR: This is Conference # 9631345

Operator: Good morning and thank you for standing by. Welcome to today's Sylvamo's Third Quarter 2021 Earnings Review Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, you will have the opportunity to ask questions. To ask a question, please press star one on your telephone keypad. To withdraw your question, press the pound key. I'd now like to turn today's conference over to Hans Bjorkman, Vice President, Investor Relations. Please go ahead, Sir.

Hans Bjorkman: Thanks, Angie. Good morning and thank you for joining our call today. Our speakers this morning are Jean-Michel Ribieras, Chief Executive Officer, and John Sims, 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 including the impact of COVID-19. We will also present certain non-US GAAP financial information.

Reconciliations of those figures to US GAAP financial measures are available in the appendix. Our website also contains copies of the third quarter 2021 earnings press release as well as today's presentation. I will now turn the call over to Jean-Michel.

Jean-Michel Ribieras: Thanks Hans. Good morning, everyone, and thank you for joining us today. I'm on slide 4. Our vision is to be the world's paper company -- the employer, supplier, and investment of choice. We are a new corporation with roots that go back more than 120 years. We are committed to transforming renewable resources into paper that people depend on for education, communication, and entertainment.

Moving to slide 5, as we discussed on investor day, while we have a strong North America business, we generate more than 70% percent of our profit in Europe and Latin America.

Over the last 12 twelve months, we generated sales of $3.3 billion and $535 million in Adjusted EBITDA. As of the end of the third quarter, our Gross Debt-to-Adjusted EBITDA ratio was 2.8. On a net-debt basis, we ended the quarter with a ratio of 2.6 times Adjusted EBITDA.

Slide 6 shows we built momentum from the October first launch. Third quarter net sales increased 8% to $908 million. We delivered Adjusted EBITDA of $177 million and an Adjusted EBITDA margin of 19.5%, above the high end of our target range of 15% to 18%. Adjusted operating earnings were $2.27 cents per share. We remain focused on generating cash and strengthening our balance sheet.

Let's turn to slide 7 to review our third quarter results in greater detail. As we continued to realize the benefits of prior price increases, price and mix outpaced increasing input costs. Global demand for uncoated free sheet continued to gain momentum as schools and offices reopen. Our volumes remain strong, and we continue to run full in all the three regions.

We tend to avoid conducting planned maintenance outages during the hottest months of the year. So, the third quarter was a low maintenance outage quarter. However, if we had normalized maintenance outage expenses our third quarter Adjusted EBITDA margin, would still have been a strong 17.6%. Our customer value proposition has strengthened as our channel partners and customers value a supplier committed to the uncoated free sheet segment. Strong commercial and operational performances during the spinoff period drove our above target financial results.

Now John Sims will provide more details about our third quarter performance.

John Sims: Thank you, Jean-Michel and good morning, everyone. It is exciting to be part of Sylvamo's first earnings call. On a daily basis, we all hear and read about increasing input costs and supply chain bottlenecks, and Sylvamo is not immune to those challenges. Our input costs have increased by $26

million in the third quarter. However, our price and mix improvement outpaced increased input costs by $4 million. Year-to-date our improvement in price and mix was $23 million more than input cost inflation. An important takeaway from this slide is the advantage we have in our global footprint.

As you can see, on a per ton basis, increasing costs impacted our regions differently. I want to point out that $3 million of the increase in fiber cost that you see in Latin America is related to the pulp we purchased for non-integrated Trace Lagoas Mill. 70% of this increase is naturally hedged by our pulp sales in Latin America. So if you take that into account, you'll see that our Latin America costs on a per-ton basis would be similar to Europe. So most of the cost impact that we're seeing globally is in our North America business.

Moving to slide 9, global uncoated free sheet demand continues to recover from the impact of the COVID pandemic, and we continue to run full and improve our mix as our commercial teams maximize opportunities across geographies, segments, and channels.

Let's talk a little about global demand. Third quarter year-to-date global uncoated free sheet demand was up 5.3%. Industry demand of Latin America was up 11% and in Eastern Europe, demand was up nearly 8%. In Western Europe and North America, demand was up 3.5%. So the recovery of copy paper demand continues to lag other uncoated free sheet segments because a significant number of office workers still have not returned to the office in North America and Europe. Schools still remain closed in Latin America. I point this out because there's still more recovery to be had as people return back to the offices and schools begin to open. This should be supportive of global operating rates and particularly operating rates in the regions we operate in. Currently, global copy paper demand was only up 2.6% through the third quarter. Year-to-date, our uncoated free sheet shipments were up 14% versus last year and our third quarter shipments were up 11% versus 2020. We're continuing to outperform industry growth rates due to our strong commercial team, brands and our focus on commercial excellence.

Let's go to slide 10. We generated $177 million in Adjusted EBITDA in the third quarter up from $124 million in the second quarter. We achieved $30 million in price and mix improvements and $12 million in volume.

Operations improved by $10 million reflecting a foreign exchange benefit in Brazil and good operations as we prepared for the spin off. As Jean-Michel mentioned, we conducted fewer planned maintenance outages and spent $27 million less than in the second quarter. This benefit though was largely offset by $26 million in increased cost in fiber, energy, chemicals, and distribution. We feel good about the performances of our regional and staff teams during the third quarter. They worked extremely hard to meet customer needs, manage global supply chain challenges, and prepared to execute the spin off.

Let's turn to slide 11. We regard commercial excellence and operational excellence as key differentiators of Sylvamo. We're gaining new business and improving our mix with key customers who are eager to expand their positions with a supplier committed to uncoated free sheet. We have best-in-class commercial teams working tirelessly to deliver value to our customers and landing new business that improves our mix and increases our positions with key channel partners and customers that are winning in their segments.

For example, in the third quarter, our North American team landed an incremental 12,000 tons of Accent Opaque business from several new customers. Accent Opaque is one of our premium commercial printing grades. We also expanded our channels to market in Latin America. We recently added Chamex copy paper, our branded copy paper, into 46 new Brazilian retail outlets that previously did not sell copy paper in their outlet. In addition, we are leveraging product development to expand beyond traditional end use applications. For example, in Brazil, we're expanding our position in medicine insert applications. Our best-in-class operations team demonstrated their commitment to operational excellence in the third quarter. They successfully completed an extremely challenging operating system cutover during a very difficult supply chain environment.

Let's take a second and look at our regional results on slide 12. Each of our regions performed well in the quarter. Strong earnings and margins reflected realization of prior price increases, improving volume in Europe, and continued strong volume in Latin America and North America. Europe and North America had no planned maintenance outages and Latin America executed two outages well. As we discussed earlier, input cost increases were significant. Although supply chains have been disrupted, some customers have shifted incremental business to us, and in fact we

have customers that would like to shift more of their business to us if we could accommodate them.

The appendix at the back provides more detail on our regional performance.

Let's turn to slide 13 to discuss our outlook for the fourth quarter. We expect to deliver an EBITDA of $140 to $150 million in the fourth quarter. That's Adjusted EBITDA. Price and mix is expected to improve by $30 to $35 million as we continue to realize price increases that have been communicated to our customers in all regions. We expect seasonally strong volume in Latin America, contributing to overall volume improvements of $10 to $15 million. Operating costs are expected to increase by $15 million, and that's reflecting seasonally high energy use in Europe and North America as we transition into the colder time frame. We expect input costs and distribution to increase $35 to $40 million. Most of this is driven by energy, wood, and chemicals.

I will speak a little bit about that. In the energy area, particularly in the gas prices, particularly in Europe is where we're seeing most of the increase. Gas prices in Europe were up almost 300% versus last year. And wood, we are seeing increases in North America, primarily weather related. This has driven our inventories low because of low harvesting. We do expect that we will finish our inventories and our wood costs will return back to normal, sometime around March next year. Maintenance outages expenses will increase by $24 million as we conduct two extended planned maintenance outages that are Saillat and Eastover mills. Our Adjusted EBITDA outlook does not include one-time costs or transition service agreement. Slide 27, in the appendix contains fourth quarter estimates for corporate items.

Let us turn to slide 14 to discuss free cash flow. As Jean-Michel discussed, we are focused on generating free cash flow to drive share owner value. We expect we will generate strong free cash flow in the third quarter, and we expect strong free cash flow in 2022. Please recognize that our 2021 free cash flow is not representative of the free cash flow we will generate in the future, primarily because it doesn't reflect $130 to $150 million of annual capital spending for maintenance, regulatory, and reforestation, which is going to be above the 90 million that is forecasted for this year.

And it also does not include our projected interest expense. Even with our interest expense and normalized capital spending, we expect our 2022 cash flow to be more than sufficient enough to allow us to reduce debt, fund $145 million of maintenance, regulatory and reforestation capital, plus the $15 million of engineering that we will spend for the Svetogorsk recovery boiler and to position the company to begin to return cash to share owners.

I will conclude my comments from slide 15, with a review of our current debt structure. On investor day, we showed that we launched Sylvamo with just over $1.5 billion in gross debt. We ended the third quarter at 2.8 times growth debt-to-Adjusted EBITDA, which is the equivalent of 2.6 on net-debt basis.

On October 29th, we repaid $30 million of the outstanding balance of our revolving credit facility, bringing the outstanding balance down to $70 million, and as you can see, we have favorable debt maturity profile. Over the next four years on average, less than $50 million of debt will amortize each year. So with that, I'm going to turn it back over to you, Jean-Michel.

Jean-Michel Ribieras: Thanks John. I'll wrap up our comments on slide 16. Even with the continued uncertainty of a COVID-19 pandemic and supply chain disruptions, we are well-positioned for continued success. Our commercial and operational excellence will continue to drive strong business results, and our financial discipline will create value for share owners. The cash flow generation John outlined would position us to improve shareholder value by reducing debt and beginning discussion with our board about returning cash to share owners.

I couldn't be more proud of how our employees have performed throughout 2021. We appreciate the commitment to working safely during the pandemic and taking care of customers. We are passionate about our employees, customers, and our share owners. Sylvamo is off to a great start. We really like our position in paper and have a great deal of momentum to close out the year on a high note. With that, I would turn the call back to Hans.

Hans Bjorkman: Thanks Jean-Michel. Thank you, John. Okay, Angie, with that, we're ready to take questions.

Operator: Absolutely. If you would like to ask an audio question, please press star one on your telephone keypad. We ask that you do limit your question to one and one follow up. Please hold for your first question. Your first question comes from the line of George Staphos with Bank of America. Please state your question.

John Babcock: Hey, good morning. This is actually John Babcock on the line for George. I guess the first question, can you talk about how demand trends have held up so far in 4Q across different markets. It sounds like overall it was pretty strong in 3Q, and then also if you could talk about what impacts you are seeing from the supply chain you know we have particularly in North America that would be helpful.

Jean-Michel: Good morning, John and thank you for joining our call. First of all, I will answer the question along demand. Demand continues to be really strong globally. As I mentioned, we are full everywhere and the trend continues to be very good, and we even have some regions like Latin America which are kind of getting out of the pandemic. So you have back to school switch off starting, return to office should start soon and hasn't even started in some regions of Brazil. So we expect to have a continued strong demand in the fourth quarter.

Concerning supply chain, we've been, like everybody, I mean, we did not today, on transportation, on supply chain issue, impacted with what's going on. In the US, I would say for us it's mostly truck. We are looking at mode shift to more rail and look at different options and have good partners, but truck is where we put a lot of attention. In Latin America, I would say it's mostly from Brazil, vessels for export. It's difficult to get export, and if you miss one, getting a new one is really very difficult. So making sure we comply with the planning timing of vessels is essential.

In Europe, we had some issues in third quarter, and little bit in rail in Russia, but it's been taken care. It is managed by the government, and they actually did a good job to put it back to a smoother relation, and we have some trucks in some specific regions of Europe, like UK, I think everybody has seen that on media. So North America, a lot specific to trucks. Latin America, vessels. Europe mostly trucks also.

John Babcock: Thanks for that color, and then you know moving on, I guess like my next question before I turn it over, you know on maintenance it seems like that

can be off a decent bit in 4Q. I thought you mentioned some projects like Saillat, correct me if I'm wrong there and also, how should we think directionally about maintenance in 2022?

John Sims: Hey, John. This is John Sims. Think for the fourth quarter, we have two major outages, extended outages, both at the Saillat and Eastover mill. The Saillat mill was actually a 21-day outage. It is a 10-year outage. We have to do every 10 years and Eastover was a cold outage. So that drives up the cost of those outages. We do provide guidance in the appendix in terms of 2022, we estimate that to be $62 million dollars with the outage expense, slightly less than what we did this year.

John Babcock: Thanks for the color. All right then. I'll get back in queue.

Operator: If you would like to ask a question, please press star one on your telephone keypad. Your next question comes from the line of Russ Evermond with ROH Investment. Please state your question.

Russ Evermond: Good morning, gentlemen thank you for taking my call. Could you talk about the capital expenditures you're going to use on your European plants. I think I saw something from your regional deck that you needed to upgrade. I think it's your Russian operation. Could you address that I guess for 2022.

John Sims: Yes, we did discuss that also in our Form-10 and investor day. So we have two recovery boilers that are reaching their end of life at our Svetogorsk mill in Russia, and we've been looking at options either to rebuild those two boilers or to replace them. We haven't made a final determination on that. We'll be bringing that to our board of directors, but we are putting our projections if you will, and we talked about it on Investors Day, the higher capital option, which is we rebuild the recovery boiler, which is estimated somewhere around $220 million dollars. This is a lower capital but less operationally impacting option. Because if you rebuild it, you have to shut that mill down, and so you lose the production of that, but when you install a new one, you don't lose that, you don't have that impact.

So next year, we have $15 million dollars in our capital spend. That's around the engineering of the recovery boiler, and then we're projecting that we'll have in 2023, approximately $75 million dollars related to the

Svetogorsk boiler, and in 2024, we will have $100 million, and then we will install it and complete it with $30 million in 2025.

Russ Evermond: So, if you do go the new route, how much cash flow would that take off, how much operating cash flow would that take out of your number in 2022 and 2023 if you go with the new boiler route?

John Sims: So, if we go the new boiler route, we will not impact the production at our Svetogorsk mill. So from an operating cash flow, we will be able to continue to run that mill and that won't be impacted.

Russ Evermond: Okay, thank you guys. Thank you very much.

Operator: If you would like to ask a question, please press star one on your telephone keypad. We do have a follow up question from the line of George Staphos with Bank of America. Please state your question.

John Babcock: Thanks for taking my questions again. I did want to ask actually, can you just remind us what price hike do you have in the market, and also how much is left to be realized from the hikes that you've announced?

John Sims: Okay, John. So where we have price increases, actually, in all regions, so we've had some price increases that we announced to our customers, you know we announced since the investor meeting. So we have price increases that we'll be going through in Russia, Europe, and Latin American export markets, and in North America. As you saw that we project that we have $30 to $35 million in terms of price and mix in the fourth quarter, and how you can think about that, it will be further implementation and realization and there are price increases in the first quarter because essentially, that 30 to 35 million probably represents about a half a quarter* of implementation of this price increase.

John Babcock: Okay, thanks for that, and then can you also just remind us how mix tends to shift across the regions. So is it more of a positive impact or negative impact? You know across different regions.

***** *On the call, the speaker inadvertently said "month" instead of "quarter". It has been corrected in the transcript.*

John Sims: Yeah, from a mix perspective, we're always looking for opportunities to improve the mix and particularly in the demand environment that we have today, there is a lot of opportunity to do that, and so when you think about mix, we have the flexibility or ability to improve our mix from a product perspective. We also have it from a customer perspective domestically in each of our regions and also export-wise. And that means you know take an opportunity to be able to export to the markets that we generate the most profits in. So when you think about you know mixes, we're trying to pull those levers in all our markets.

John Babcock: Isn't there a seasonal impact though to mix? At least from what I remember. Maybe I'm completely wrong here, but that's where I was getting at.

Jean-Michel Ribieras: You're correct, John. There is a small regional impact but because we are in the three regions, it is a little bit different. But usually, the first quarter, especially in Latin America and in Russia, the lowest one because of the holidays and the vacation, and then you have the third quarter which is average. So we do have some seasoning, but because we are in the three regions, we kind of balance each other.

John Babcock: Okay thanks for that, and then just a last question. You know, just on cash flow, are there any notable items we should be mindful of in the fourth quarter here, whether it's working capital or otherwise?

John Sims: No. We did share with you that when we got the TSA expense that'll show up in the fourth quarter, which we hadn't had previously enforced because of the spin and also, we have some one-time items.

John Babcock: Right. Thank you.

Jean-Michael Riberias: Thank you.

Operator: Your next question comes from the line of Brian Lalli. Please state your company name followed by your question.

Brian Lalli: Hey guys, yeah, it's Brian Lalli from PGIM. Thanks for your time this morning. If I could maybe just follow on John's question, you know not to get too far ahead of ourselves with 2022 guidance etcetera, but if you

were to sum up all of the price actions you've taken relative to the inflation that you are dealing with, is there an amount for 2021 that you'd say you're still not fully caught up on yet, and obviously all things being equal, which isn't fair. You know, you'd say 2022 has additional tail winds from the pricing you've already enacted. I'm just curious kind of what that number might be as we move into next year.

John Sims: Yeah, I think if you looked at a full year basis because we still have some of these price increases that we are implementing in the fourth quarter, and we've had some significant cost increases, and some of these I think that may not go forward. So we think that the gas prices in Europe as more gas coming in from Russia, and hopefully, the wind will blow stronger in Europe that we may actually see some of the gas prices back off, and like I mentioned earlier, the wood cost in North America, we expect that is elevated now because of the weather, but that will come down. But in general, I think that when you look at our price increases relative to cost increases, we're just staying ahead of it, by the time we exit the year. However, when you look at the first quarter because of prices that we have already announced to our customers that we are and feel very strong and confident that these will be implemented. We're going to see the benefit of that in the first quarter. It is in the first quarter that we'll start to really show that we're outpacing the cost inflation.

Brian Lalli: Is there a number that we should be thinking about on that, John? I'm just curious, to your point, the run rate as we exit the year maybe isn't as high as you think you'll get to again with the prices that you announced and feel confident in with your customers? Just re-size it up correctly in our models.

John Sims: I'm not going to give you numbers right now for projection for 2022 and we don't get forward looking in terms of price details.

Brian Lalli: Okay, no, that's fine. Again, I just wanted to ask the question. Not a big deal. And then, I guess my second one would just be, you know again, Brazil, you know tax liability, just curious if there's any update on that. I know there's some limitations around you know restricted payments and stuff until you get that figured out. So I figured I'll just see if there is an update on that front as you talk shareholder returns.

John Sims: Hey Brian. Good question. In terms of the -- there is still a bill pending in the Brazilian legislation about a potential tax amnesty program but that still hasn't worked its way through yet and just to remind everybody on the call that it's really International Paper's decision. They control the decision of whether they want to pursue that amnesty or not, but it still hasn't worked through. So it doesn't appear that it is going to come through in November. There's a lot going on in terms of the Brazilian government right now. It may come out in December or maybe sometime next year.

Brian Lalli: All right. I appreciate the information. All right, guys. Thanks so much for the time. I appreciate it. Best of luck with the rest of the year.

John Sims: Thank you.

Operator: At this time, there are no further questions. I would now like to turn the floor back to Mr. Bjorkman for any additional or closing remarks.

Hans Bjorkman: Thank you for joining us today. We do greatly appreciate your interest in Sylvamo, and we look forward to the continued conversation in the months and quarters to come. Have a great rest of your day and a great week.

Operator: Thank you for participating in today's conference call. You may now disconnect your lines at this time.