Transcript

SYLVAMO: Fourth Quarter 2022 Earnings Call

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SPEAKERS

Hans Bjorkman - Vice President, Investor Relations
Jean-Michel Ribieras - Chairman and Chief Executive Officer
John Sims - Senior Vice President and Chief Financial Officer

ANALYSTS

George Staphos - BofA Securities
Paul Quinn - RBC Capital Markets
Ed Brucker - Barclays

PRESENTATION

Moderator

Good morning. Thank you for standing by. Welcome to Sylvamo's Fourth Quarter 2022 Earnings call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, you will have the opportunity to ask questions. [Operator instructions]. As a reminder, your conference is being recorded.

I'd now like to turn the call over to Hans Bjorkman, Vice President, Investor Relations. Sir, the floor is yours.

Hans

Thanks, Amy. Good morning and thank you for joining our call today. Our speakers this morning are Jean-Michel Ribieras, Chairman and 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. 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 fourth quarter 2022 earnings press release as well as today's presentation.

With that, let's hear from Jean-Michel.

Jean-Michel Thanks, Hans. Good morning, and thank you for joining our call. I'll begin my comments on slide 4.

In 2022, we delivered significant accomplishment as we executed our three-pronged strategy of commercial excellence, operational excellence and financial discipline. We worked hard to be the uncoated freesheet supplier of choice, which resulted in our outperforming industry shipments in all three regions. We improved our safety performance and defined our ideal culture, which would help us become the company in which employees care, trust and grow and succeed together.

We delivered strong earnings and free cash flow despite global supply chain challenges and unprecedented input cost inflation. We reduced our geopolitical risk and uncertainty by divesting our Russian business and agreeing to acquire the Nymolla mill in Sweden. We achieved a 30% return on invested capital, strengthened our balance sheet by repaying more than $370 million in debt, and returned $90 million in cash to shareowners. I'm proud of our team and their accomplishment over the last year.

Slide 5 highlights our 2022 full key performance metrics. We increased net sales by 28% to $3.6 billion, we achieved an adjusted EBITDA of $721 million, a 62% increase over 2021, and our adjusted EBITDA margin was 20%. We generated $269 million in free cash flow, which was more than $6.00 per share. I would like to point out that our 2021 free cash flow only included one quarter worth of cash taxes and interest.

Our adjusted operating earnings increased by 72% to $7.84 per share. As we enter 2023, we are confident in our ability to continue to create value for our customers and shareowners.

Slide 6 highlights our key performance metrics for the fourth quarter. Net sales were $927 million, a 19% increase versus the fourth quarter of 2021. Adjusted EBITDA was $170 million, up 38% versus 2021, with a margin of 18%. We generated $84 million in free cash flow, and adjusted operating earnings of $1.97 per share, which was more than double the

adjusted EPS in the fourth quarter of 2021. These strong performances demonstrate our ability to continue to deliver on our investment thesis.

Now, John will discuss our fourth quarter performance in more detail. John?

John Thank you, Jean-Michel. Good morning, everyone. Let's turn to slide 7.

Let's review our fourth quarter adjusted EBITDA versus the third quarter. In the fourth quarter, price and mix improved by $31 million as we realized higher price increases in all regions. This improvement was in line with our outlook.

Volume decreased by $20 million. In addition to the usual seasonal slowdowns in Europe and North America, volume in North America was also impacted by channel destocking in the commercial printing segment, which I will discuss in more detail later.

Operations and costs increased by $42 million, which was near the high end of our outlook. Twenty-five percent of this was in operations, and this was largely due to seasonally higher cost in Europe and North America. The remaining 75% was in other costs. These included incremental incentive compensation accruals, unfavorable Brazilian foreign exchange and unfavorable yearend LIFO. As expected, we spent $21 million more on planned maintenance outages, as this was our highest outage quarter in 2022.

Input and transportation costs improved by $6 million with favorable energy and distribution costs, even after unfavorable impact of $5 million due to the winter storms in the Southeast US in December.

Let's look at the 2022 uncoated freesheet industry fundamentals on slide 8. Demand in Latin America and North America continued to rebound from pandemic levels, while demand in Western Europe declined slightly. In the first half of 2022, customers in Europe and North America could not get enough paper from domestic suppliers, so they turned to importers, primarily Indonesian mills. The deliveries of these imports began to show up in the third quarter and during the fourth quarter. They caused channel inventories to build, especially in the North America commercial printing segment. At this point, commercial printers began to reduce their paper orders to rebalance inventories.

It is important to note that the underlying demand for commercial printing in North America has declined slightly, but in line with the slowdown of the economic activity. With the reopening of the Chinese economy, we expect increasing paper demand in China, which should absorb some of the Indonesian mills' production that has been imported into our regions.

Importantly, uncoated freesheet industry capacity in our region is down 10% to 20% relative to pre-pandemic levels, which will continue to help the supply and demand balance.

In summary, demand is up in our largest regions, capacity is down in all regions, and we are confident in our positions with key customers.

I'll turn it back to Jean-Michel to talk more about our newly acquired Nymolla mill.

Jean-Michel Thanks, John. I'm on slide 9.

At the beginning of January, we welcomed our Nymolla colleagues to Sylvamo. These photos are from our day 1 celebration. The Nymolla mill sits well with our three-pronged strategy of commercial and operational excellence and financial discipline. It is one of Europe's largest integrated uncoated freesheet facilities and generates 85% of its energy from carbon neutral renewable biomass residuals. And the majority of its purchased energy is produced without fossil fuels.

The mill has a strong customer-focused culture and shares many of our values. The Nymolla team maintains strategic channel partnership and a complementary geographic mix. It also has an excellent environmental position and is aligned with our environmental stewardship and social responsibility strategies.

On slide 10, you can see Nymolla new oxygen delignification plant, which was part of the $40 million pulp mill modernization project that was completed and started up prior to our acquisition. The project included a new softwood digester, increasing softwood pulp capacity by 15%, which will allow us to reduce the use of more expensive hardwood. The mill is on its way to realizing the expected annual earnings benefit of $8 million. We are thrilled to have the Nymolla mill and their talented team as part of Sylvamo and have integrated Nymolla into our commercial and operational processes.

Okay, let's turn to slide 11, and hear from John on our first quarter outlook.

John Okay. Thank you, Jean-Michel.

In the first quarter, we expect to deliver adjusted EBITDA of $200 million to $215 million. This table shows the quarter-over-quarter changes without the impact of Nymolla, and we provide a $15 million to $20 million outlook for the Nymolla mill contribution.

Price and mix are projected to decrease by $15 million to $20 million, primarily reflecting a seasonal mix shift in Latin America. We expect volume to decrease slightly by $5 million to $10 million, reflecting seasonally weaker volume in Latin America and continued inventory corrections in Europe and North America.

Operations and costs are projected to improve by $10 million to $15 million as the unfavorable fourth quarter items will not repeat. We also expect input and transportation costs to improve by $5 million to $10 million, largely on favorable trends and costs for natural gas and transportation. Maintenance outage expenses are projected to decrease by $29 million, as we will not conduct any maintenance outages in the first quarter.

This will be a good time to point out that while Jean-Michel will provide a full year outlook for free cash flow, we expect the 2023 free cash flow to be weighted more heavily to the second and third quarters of the year, but we are confident in our full year free cash flow forecast.

Please turn to slide 12. Here you will see the three prongs of our capital allocation framework. This depicts how we think about allocating cash to drive shareowner value. At the time of the spin off, we prioritized using cash to reduce debt. We also began to return non-discretionary capital spending to the appropriate level to maintain our low-cost assets, Now that we have achieved a much stronger financial position with less than $1 billion of gross debt, we are putting greater emphasis on returning cash to shareowners and reinvesting in our business to grow our earnings and generate cash.

We remain a cash flow story. We will leverage our strength to drive high returns on invested capital and generate free cash flow. And we will use that cash to increase shareowner value by maintaining a strong financial

position, returning more cash to shareowners and reinvesting in our business.

Let's move to slide 13 to review our fortified financial position. Since the spin off, we have reduced our debt by more than $500 million. At the end of January, our gross debt to adjusted EBITDA ratio was 1.4x, and our net debt to adjusted EBITDA ratio was 1.2x. Pension funds remain well funded at or above 95%. We do not have any significant debt payments due until 2027.

Let's move to slide 14. We will continue to reinvest in our business and maintain our low-cost assets and will fund high return projects to increase our earnings and cash flow. Our 2023 capital spending outlook includes $175 million to $190 million for non-discretionary spending, and $35 million to $45 million for high return projects and to integrate Nymolla and achieve the synergies there.

Our maintenance and regulatory spending plan includes $18 million for our Nymolla mill, as well as spending plan for 2022 that was delayed due to supply chain challenges. Our maintenance and regulatory plan also includes an incremental $10 million due to inflation. We will also invest $30 million to $35 million in Brazil forestry, about a 10% year-over-year increase, to ensure long-term availability of sufficient volumes of low-cost wood, which are a critical component of our competitive advantage in Latin America.

I'm now on slide 15. We have created substantial shareowner value in the 16 months since the spin off. We fortified our financial position, reduced debt by more than 35% and achieved $1 billion gross debt target, Returning cash to shareowners is a core component of our investment thesis. We have returned $111 million in cash to shareowners, with $21 million in dividends and $90 million of share repurchases. Since the spin off, we have repurchased 1.8 million shares. Also, we more than doubled our quarterly dividend to $0.25 per share, effective this quarter.

We'll continue to reinvest in our business to remain the supplier of choice, to maintain our assets and competitive cost position, and to increase cash flow.

I'll turn it back to you, Jean-Michel.

Jean-Michel Thanks, John.

Let's turn to slide 16 to review our 2023 full year outlook. In 2023, we expect to generate $760 million to $840 million in adjusted EBITDA, and $300 million to $330 million in free cash flow. Our adjusted EBITDA outlook assumes slightly favorable price and mix against input costs, and relatively stable volume, since we expect channel inventory correction to be resolved in the first half of this year.

Our planned maintenance outage expense will be about $20 million higher this year than last, with outages in Saillat and Nymolla. We're expecting favorable trends in energy, input and transportation costs.

Our free cash flow outlook reflects an increase in earnings, reduced interest expenses, and the elimination of foreign tax credits on our Latin American earnings. It also reflects the increase in capital spending that John reviewed.

Let's wrap up our comments on slide 17. We remain committed to our investment thesis. We strive to remain the employer, supplier, investment of choice. We are grateful for our talented and engaged colleagues and their dedication to working safely, delivering on customer commitments and creating value for our shareowners. We're also grateful for our customers. Without their continued support and partnership, we could not succeed.

Executing our three-pronged strategy of commercial excellence, operational excellence and financial discipline will enable us continue to create long-term value for our shareowners. We will continue to leverage our strength to drive high returns on invested capital and generate cash. And we will allocate capital to maximize shareholder value.

Increasing cash returns to shareowners is one of our key objectives. With that in mind, we are considering alternatives regarding the current limits on restricted payments. We remain committed to creating value for all of our stakeholders, as we build our desired culture, one in which we care, we trust, we grow and succeed together.

With that, I'll turn the call back over to Hans.

Hans — Thanks, Jean-Michel, and thank you, John. Okay, Amy, we're now ready to take questions.

Moderator — Thank you. [Operator instructions].

Our first question comes from George Staphos with BofA Securities. You may begin.

George Thank you. Hi, everyone. Good morning. Can you hear me okay?

John Yes, George. Hi. How are you doing?

George Doing well. Thanks for all the details, and congratulations on the progress in the year.

My first two questions will be around volume. And so, Jean-Michel, I think you said in your prepared remarks at the end that you expect stable volumes. I'm just trying to determine whether that's underlying demand that you're referring to or your own shipments when considering the fact that I think you said channel destocking is still going to be occurring through the first half.

Relatedly, and my second question, so you talked about the impact of imports and what triggered that, and that was very helpful. Recognizing there is a lag on this data, the imports continue to rise, at least in North America. What do you attribute that to, to the extent that you can comment, and what is embedded in your forecast for '23 about the impact of imports in North America, but certainly anywhere else you care to discuss? Thank you.

Jean-Michel Thanks, George. Two separate questions. I'll start with the volume. I'm talking about our volume. I think, when we look at the full year and what we are winning with customers, I feel comfortable we would have a great year. Even if you take right now, despite the inventory correction, we're full in Latin America, it's a little less in North America and in Europe, but it really depends on segments already. If you take the commercial printing segment, it is weak, and that's probably where the inventory is the highest.If you take the cut size segment, it's quite good.

Concerning demand, we're still seeing strong demand growth in Brazil. Brazilian cut size is back to above pre-COVID. The demand in North America, it's difficult to forecast, but I would say maybe not as strong as last year where imports impacted, but still good. Europe, we have the trending slight decrease, which is normal.

The question on imports comes from a lot of discussion we personally had with customers. In first half last year, as you remember, there was a little bit of a panic, I would call it, in the markets. And this is true in North

America and in Europe, where our customers had a lot of work and from a supply standpoint, we were still tight because of the demand. And also, we were still getting out of the COVID and probably not efficient like in a normal timing.

So, this is when a lot of this import was ordered and it didn't come on the first half of the year, as it would have been expected by this customer. It mostly came in third quarter and fourth quarter, which, by the way, if you look at the statistics in North America, you can see the increase in the import is mostly during third and fourth quarter.

I think there was the pipeline defect that's because supply chain was very difficult in first half, and cost of sending paper from Asia to North America or Europe was 10x what it is today, so it was extremely high. So that has created clearly an issue in the inventory that even our customers were not expecting to be so strong. So, I think that's one-time big impact. We will still have imports in Europe or in the US. I expect it to be like the trends we've had up to now between 10% to 15% maximum, but not between 15% and 20%, which we had on fourth quarter. So, I think once the destocking will have happened, we will be back to more traditional long-term trends.

George Jean-Michel, but those ratios you mean as a percentage of consumption or year-on-year growth? Just one point of clarification there.

Jean-Michel Percentage of demand, of consumption.

George Thank you.

Moderator Our next question comes from Paul Quinn with RBC Capital Markets.

Paul Yes, thanks very much. Good morning, guys. Just a question. I understand the capex is up this year, because it looks like you missed about $30 million of spend last year. But maybe you could give us some examples of where you're spending the $30 million to $35 million on high-return projects? And whether you expect this higher level of capex to stay at this level in '24.

John Yes. Hi, Paul. It's John Sims. So, our capital spending for this year is higher than last year. And as you said, some of that is attributed to carryover, so things that we had planned to execute in 2022, because of supply chain got pushed into 2023. The additional spending also is due to the Nymolla mill, which we highlighted here, so the $18 million. I think

we gave a guidance for the maintenance and regulatory somewhere between $130 million to $150 million is what we would be spending for maintenance, regulatory and reforestation. The number is now between $175 million and $190 million, I think, is probably a good number to go forward. And what that does include is the additional Nymolla spending, probably around $15 million to $20 million. And also, we have the impact of inflation. We kind of highlighted that, but inflation impacted not just input cost, but labor as well as capital and we're expecting that to go forward.

I think the second part of your question is around the high-return cost reduction capital, where do we expect to spend that. So that's a planning number right now. We do have a pipeline of projects that are going to be approved. And what we do is we make sure that we're spending that money to get high-return projects in our most competitive mills, so we can get long-term benefit from that. And we'll be sharing that as those projects get approved going forward.

Paul — Okay. And then, if I could just switch over to free cash flow, pretty robust guide at $300 million to $330 million, if you could remind us your restrictions on share buybacks and what you're doing to try to alleviate some of the limits on returning that cash?

John — So, in the fourth quarter, we were able to increase the restricted payment covenants that we had from $75 million to $90 million. And that's what, as you know, we fully utilized that and returned $90 million back to shareowners in either the form of dividend and also in terms of share buybacks, which we did last year; $10 million in dividend and $80 million in share buybacks.

We're still limited to the $90 million right now as we speak, and this is one of the things that Jean-Michel alluded to, it is a priority for us. As you rightly say, our free cash flow, we feel very confident about that, it's expected to increase this year versus next year. And so, we're working on different options that we'll be reviewing with the Board and our intent is to get flexibility, so that we could increase what we can return back to shareowners above the $90 million.

Jean-Michel — It's one of our priorities. We do want to return more cash to shareowners. This is a key objective.

Paul — Well, that's great to hear. Best of luck. Thanks.

Jean-Michel Thank you, Paul.

Moderator Thank you. Our next question is from Ed Brucker with Barclays. Please go ahead.

Ed Hey, thanks for taking my question, and congrats on the good quarter. My first one was just on some of your comments right to start on what seems like some outperformance in shipments in the quarter versus peers. Just want to get your thoughts on, is that taking share within the market? Or, I guess, just more details on what you're doing to kind of be the go-to uncoated freesheet provider?

Jean-Michel Yes, hi, Ed, thanks for joining the call. We've been a long-term partner in this business, and Sylvamo, especially, with its focus to uncoated freesheet, is very well aligned with the key winning customers worldwide. This is true in North America, but this is true in Europe and Latin America also. So, as a result, we usually grow more than the market, our volume. This is not new. It's been happening for multiple years, but we can see it very well today where it's a very good fit with our customers, they're very aligned with us, and we're growing. And we're growing on long-term partnership and with brands, with a complete offering, with the best partners in the channels, and that makes a difference. So, we want to continue to win in this market. We think we have the rights as the key player.

Ed Got it. My next question, just on M&A. The Swedish mill sounds like a pretty good acquisition. It seems like just in the space, the consolidation could be a way to control what seems to be a declining uncoated freesheet market just in general and control capacity there. So, just want to get your thoughts on more M&A, if you're looking at other acquisitions and the size you'd be willing to do that, primarily in the context of your restrictions that you do have on share repurchases and the excess cash you'll likely have in 2023 with the $300 million free cash flow.

Jean-Michel So, Ed, M&A is not our priority. We are satisfied with our core mills and what we have today. It will be purely opportunistic. But returning more of cash is clearly our priority, so this is more what we're going to spend our time than looking at M&A. Nymolla was a unique, very opportunistic, great opportunity, and we're going to continue allocating our capital more to a strong financial position. The return, as I said, to cash to shareholders and great reinvestment in our business, that's going to be our priority.

Ed Got it.

John — This is John. I'll just add that the Nymolla, while it was a great opportunity for us, core to our strategy is a focus on uncoated freesheet, which also is one of the reasons why we tend to outperform the market, because customers know that we're in it for the long run. But we want assets that are low cost, that have a competitive advantage in the marketplace, so that we can continue to serve the uncoated freesheet, possibly generate a lot of cash for a long time, and the Nymolla mill just really fit right into the wheelhouse that we were looking for. There's not a lot of opportunities for that, but that's what we mean by opportunistic is kind of fit with our strategy. It's got to be a low-cost, strong asset, and that's where the Nymolla mill is.

Moderator — [Operator instructions].

We have another question from George Staphos with BofA Securities. Please begin.

George — Thanks. Hi, everybody. Again, two more questions more on volume, although I've got other stuff I do want to get to as well. So, I'll come back. But Jean-Michel and John, so if you assume that imports are going to drop from 15% to 20% of consumption to 10% to 15% of consumption, and the market consumption probably is going to be down because that's the normal trend, that would suggest a fairly sizable drop in imports for this year in '23 versus '22. Am I missing something there in terms of how you're evaluating it and anything that's giving you comfort, any sort of green shoot commentary from DCs or your customers that that's happening? So that's question number one.

Question number two, again, on volume and trade flow. Yes, China was locked down last year, but one of the things that, that also did, this is more on the freight side, is it prevented exports from China and from Southeast Asia. Now maybe we're now seeing with the reopening those imports coming into North America, coming into Europe, but could there be further problems, if you will, and really relay what your customers are saying, from the opening of supply chains and what it might mean for supply that comes into markets that were, as you pointed out, really tight last year in Europe and North America, which was a good thing for you?

John — Yes, George, I'm going to start off and then I know Jean-Michel will probably want to weigh in. But when you look at the full year for '22, imports into North America represented 13% of demand, but most of that was the increase as we talked about in the second half of that year. So, when we look at our projections, and there's a lot of moving parts on this,

when we're talking about somewhere between the 10% to 15%, we're still seeing and projecting a potential increase of imports year-over-year into North America.

Now be mindful that it is true that the cost of shipping from Asia into the US has actually backed down to pre-pandemic levels, but there's still extensive duties that are applied to both the Indonesia and the Chinese suppliers. And as the Chinese market opens back up, when you look at it from a pricing perspective, net pricing perspective, it's still probably more advantageous for them to ship into China.

The other thing we didn't talk about a little bit, but some of the imports also came in from Europe. The European freight costs continue to be extremely high. So, I think when we look at our outlook and how we're thinking about it, we do see and we're projecting that we're going to see some increase of imports into the US. But I think what we're trying to allude to, it's not going to be out of the norm than what we've seen before and it's manageable.

George — Okay. If I could sneak one in, just in terms of your guidance. So, the first quarter is well over $200 million in terms of EBITDA. Look, recognizing there's lots of seasonality and certainly maintenance outages are lumpy, if I just annualize that, I would wind up with an EBITDA outlook that's probably above your full year range. So, are you just trying to create or give yourself some cushion against the unknowables that occur in any year? Were there some specific things that you want us to remember in terms of the cadence of your EBITDA the rest of the year? Thank you, guys.

John — I think there's two things on that, George. One is there's no outages in the first quarter. So, there's a page in the Appendix that shows our outage and the two highest outage quarters is the second and the fourth quarter, so you have to factor that into it.

But I will say that there is a lot of economic uncertainty in our outlook, we've taken into account, that's why we do have the range. We're confident in it given that what we're projecting both the good and the bad. I mean there are some things that we just talked about it, potentially imports in North America, could be in Western Europe, but then there's the positives where an example would be China opening up that could have a positive impact on us.

The other thing that we didn't mention, but Jean-Michel alluded to it, is we're really seeing really strong demand in Brazil. In fact, Brazil's uncoated freesheet demand is now above pandemic levels and I think their year-over-year increase is almost 19%. We're seeing cut size to be very strong as we're starting to see reports that the US is returning to the office now at 50%; as that continues to increase, that's supportive.

So, our outlook has both the positives and the more challenging scenarios incorporated into it.

George — Thank you, John.

Moderator — Our next question comes from Paul Quinn with RBC Capital Markets. Please go ahead.

Paul — Yes, thanks. I just wanted to follow up on this new priority of returning cash to shareholders that you've got and just talk about some of the alternative solutions you've got on trying to remove some of the restrictions from your payment basket to shareholders.

John — Well, Paul, I'd love to be able to share that with you, but I think because some of these options could involve confidential information, we really can't discuss it right now. And also, we need to make sure our Board has approved it. But suffice to say, we're looking at all options. Yes, we're looking at a high level. And I would say that we also are confident that we're going to be able to do something about an increase to the $90 million this year.

Paul — All right. That's all I have.

John — Thank you

Moderator — Our next question comes from Adam Ritzer, private investor. Please go ahead.

Adam — Hi, thanks for taking my call. Most of my questions I had were covered, but in terms of your debt stack, right now you're about 1x levered roughly. Is there any reason why you would need to go below that or would want to in terms of cash deployment?

John — No, I think the short answer to your question, Adam, is that we're really comfortable with where we are. I mean, we've set the target of $1 billion, and that's gross debt, because we want to be able to have the financial

flexibility through the cycle to invest in our business, either in high-return projects or whatnot and so that's where we are.

Now, could we reduce our debt? We may, but not because of the payment restrictions that we have, but that's not the plan right now.

Adam — Right. Until you get the payment restrictions lifted, the cash is going to build, but ultimately, you don't want to have too little debt. Got it.

John — Yes.

Adam — The other question I had relates to Europe. I know in the past, you said about, I think, it was 25% of Europe's capacity is not fully integrated. I'm not that close to the markets as you guys are, but are there any other mills in Europe or capacity reductions or potential consolidations that you guys have heard about or rumored to further consolidate the European markets?

Jean-Michel — I think we cannot really answer that question. We don't comment on rumors. But your numbers in terms of non-integrated capacity which means less competitive for Europe of about 25% is correct.

Adam — Okay. Appreciate it. Thanks very much.

John — Thank you, Adam.

Moderator — Thank you. Our next question comes from George Staphos with BofA Securities. You may begin.

George — Hi, thanks for taking my question. It'll be my last one, guys, I promise. So, when we look at the capex this year, and you've done a good job of outlining why there's an increase, nonetheless, when we look back over time and certainly priorities have changed, the market has changed, your relative positioning has changed probably in a good way, it's still a pretty sizable jump up in capex. Could you remind us what you think a more normalized, which suggests that maybe '23 isn't normalized or maybe it is, but what you think a normalized level of capex could be for the company incorporating return projects, making sure everything is functioning at the level you want?

And when you do your indexing, do you think you're spending at least as much, if not more, than what you see overall within the industry? Because my view would be you're probably spending at a very healthy level, and it's working out. Your performance has been very good. What do you think normalized is? And do you think you are at least spending as much,

if not more, per mill or per ton versus averages in the industry? Thanks, guys, and good luck in the quarter.

John

Yes. Thank you, George. And I think our focus is, as we keep saying, is to generate cash and so we want to be very judicious in the capital that we spend. But also the engine of our cash is our low-cost assets, as well as our customer relationships and our people, of course, but this is a key focus.

Now if you look at the average of our capital when we do this, we'd really go back to pre-2016, because it was '16, after that '17, '18, '19, capital was pulled back. And we would say that that was underinvested in our business during that time period. Both in the forest, we saw it down in Brazil, and also in our facilities.

But if you look at the period prior to 2016, we're spending essentially pretty much on average what we've spent back then on a per facility basis, with the exception of inflation. In 2016 dollars, you have to inflate it and there was quite a bit of inflation the last two years that we've seen in the maintenance spending.

So, I guess the short answer to your question is, yes, I think the range that we talked about earlier, the $175 million to $190 million for maintenance, regulatory and forestry is what we feel is the appropriate number going forward.

We didn't mention this, so, George, I'm going take a little extra time, but I think it's good to point out why we are increasing spending in forestry down in Brazil. So, we are increasing by 10% and it's really because of what I said earlier. Back in 2019, '20 and '21, we underinvested in our forestry in Brazil, which means that we typically have 80% of our wood that we consume is our own forest, and 20%, we have to go out in much more expensive outside markets to get the wood, because we underinvested.

Not only that, but there were forest fires. There was some insect damage. We are now probably approaching 70%, and that actually 10% is a big deal from a cost perspective for us. And so, we're going to be investing more in the forestry to replant land that we have, that we own or through our partnerships that we hadn't been adequately sustaining, and so we're spending that to go forward. But again, because of the rotations of the wood, six to seven years, we really won't see the benefit of that until out in the future, but that's the other reason why we're increasing our spending.

George — Yes, that makes sense, and certainly is consistent with a lot of the things that the LatAm folks talk about. And it's a low-cost source of wood, so you are seeing investing in conversion of that fiber as well, so you've got to keep your base. Thank you, John.

John — Thank you, George.

Moderator — Thank you. I'll now turn the call back over to Hans Bjorkman for closing comments.

Hans — Thank you for joining us today. We appreciate your interest in Sylvamo. I'm going to ask Jean-Michel to give a quick summary of the call today.

Jean-Michel — So, thanks to all of you for joining, first of all. I just want to remember maybe what's our key message is. In 2023, we expect to increase our earnings and free cash flow versus 2022. And it's a clear objective of ours to return more cash to shareholders. And in terms of capital allocation, we want to keep a strong financial position, return cash to shareholders and reinvest in our business.

I'm sure '23 has a lot of uncertainty, but we've got the right strategy and the right people to execute it. So, we feel confident in this outlook. Thank you very much.

Moderator — Once again, we'd like to thank you for participating in Sylvamo's fourth quarter 2022 earnings call. You may now disconnect.