Fireside Lightning Round with Clearwater Paper and Sylvamo | Bank of America 2024 Global Agriculture & Materials Conference | February 28, 2024

George:

Welcome back everybody. Hope you had a nice lunch. We are very happy to have our lightning round with two companies who did this for us last year as well, Clearwater Paper and Sylvamo, thank you very much. We have Arsen Kitch, chief executive officer for the company, Clearwater, as well as chief financial officer, Sherri Baker, who's in the audience for Clearwater and for Sylvamo, the formal remarks will be made by John Sims, chief financial officer of the company.

The way we do this and did it last year, both companies are going to do a quick overview of their companies, things that you should know about them, and then we're going to get into the Q and A with both of them on stage, will be some cross-fertilization, hopefully some common themes, and we look forward to some really good questions from all of you. Thanks for being here. I think Arsen is going to kick us off, Arsen if you would take it away.

Arsen Kitch:

Sounds great. All right, well thanks for joining us today. I'm Arsen Kitch, president and CEO of Clearwater Paper. For those of you that don't know Clearwater Paper, we're a $2.1 billion revenue paper company about 280, $281 million of EBITDA last year. We have two businesses. The first one is our paperboard business and we make high-quality bleached paperboard for food service and consumer packaging applications. Our other business is our at-home private-branded tissue business. Those two businesses make up Clearwater Paper. Both businesses are well-positioned, attractive, and markets-stable demand profile, well-invested manufacturing footprint. They're both well-positioned in their respective markets.

Since 2020, we have focused heavily on the leveraging our balance sheet. We've reduced our net debt by $450 million since 2020, and our leverage is down to 1.5 times at the end of 2023. We had quite the journey since 2020.

George:

Arsen, do you have slides by any chance? Okay.

Arsen Kitch:

That de-leveraging positioned us really well for what's next for Clearwater Paper and last week we announced an acquisition and it's a great strategic step for Clearwater Paper. We are acquiring or we're planning to acquire Graphic Packagings Augusta Paperboard Mill. It's a facility with about 600,000 tons of capacity, which raises our paperboard capacity from 800,000 approximately to 1.4 million tons or just over 70%. Our strategy is becoming pretty clear. We're building a premier independent supplier of paperboard to North American converters. We think it's a great space and we know that space very well. We're leaning in to where we think we're strong and we have great potential in the future. We will look at other acquisitions as well in the future and other investments to better service those customers. But in the short to medium-term, we're going to be heavily focused on de-leveraging our balance sheet after this acquisition. We also announced a strategic review or looking at strategic options for our tissue business as well, and we'll keep you informed as we have news to share.

We're optimistic about our future. I think we have a clear strategy and a clear focus. We have options and we have the ability to create value for shareholders in the long run. Those are the prepared remarks.

George:

Thanks, Arsen. John?

John Sims:

Thank you, George. Well ... There you go.

Good afternoon everyone, and thank you for joining today, also, those that are on the webcast. I'm starting with this slide because it's core to our strategy. Our strategy is to focus on uncoated free sheet, which remains the largest and most resilient graphic paper grade. Uncoated free sheet has the highest number of end-use applications and used across all sectors of the economy in regions where we operate, for example, government, finance, healthcare, real estate, distribution, and legal. Uncoated free sheet is sustainable, affordable, and functional, and we believe paper will remain an effective vehicle for education, communication, and entertainment for a long, long time.

For example, paper also plays a critical role in education. Studies continue to show that students of all ages absorb more when reading on paper versus the reading on digital screens. Just last year, Sweden moved students off digital devices and back onto books and handwriting on paper. This is why the total demand of uncoated free sheet exceeds the sum of all other printing and writing grades combined.

Go to the next slide. We view the uncoated free sheet really as an ocean of opportunity for us. Why? Because it'll be around for a long time as I said earlier. Because the uncoated free sheet regions that we operate in are attractive to firms wanting to earn well above cost-of-capital returns and because we have competitive advantages. Internally, we call our strategy the flagship strategy, which means that every dollar we retain in the business is going to go to strengthen our flagship of mills, our low-cost mills, our talented teams, our iconic brands, strategic channel partnerships, and the regions that we operate in are very attractive.

Executing this strategy we believe, and has already generated, a lot of cash. Cash that we use to increase shareowner value by maintaining a strong balance sheet, returning cash to shareowners, and reinvesting in our business.

Let's move to the next slide. We generated substantial cash since the spinoff, which has allowed us to reduce our debt by $570 million or 38%. Our net debt to adjusted EBITDA ratio is 1.2 at this time. We continue to view debt reduction and keeping a healthy balance sheet as a cornerstone of our strategy and our capital allocation framework. This allows us to return cash to shareowners to reinvest in our business, to strengthen our competitive advantages in our core uncoated free sheet markets. We currently have no significant debt maturities until 2027.

Turning to the next slide, we began to return cash to shareowners within the first year of being an independent company and after returning $90 million in 2022, we deposited $60 million in escrow, which allowed us to return more than $90 million to shareowners in 2023. In 2024 we expect to return at least 40% of our free cash flow to shareowners. We have exhausted our first 150 million share repurchase authorization and have approximately 150 million on the September 2023 authorization. We have bought approximately 7% of our shares back since the spin. We'll continue to look for opportunities to repurchase shares at attractive prices.

Now on slide eight. Maintaining a healthy financial position allows us to reinvest in our business through the cycle in order to improve our competitive position. Three of the most challenging industry demand cycles I personally have seen in the 20 years I've been in the business was the 2008 to 2009 Great

Recession, the 2020 COVID pandemic, and a 2023 printing recession we had last year, including the channel inventory corrections. Last year was the toughest of these cycles, but unlike the previous ones, we did not reduce our capital spending. In fact, we actually increased our capital spending last year to strengthen our business. That's why we have a strong balance sheet so that we can invest through the cycle so that coming out of a down cycle, we're actually stronger than when we entered that cycle.

Not only did we continue to invest in our existing businesses, we seized an opportunity to acquire the Nymolla mill in Sweden at a very attractive price. The advantage we have as an independent company allows us to invest in our future in a way that we couldn't do before.

We're now moving to slide nine. Putting our capital allocation history all on one slide shows the strong commitment we have in maintaining our strong balance sheet, returning cash to shareowners, and reinvesting in business. We've generated a substantial amount of cash over the past two years and expect to continue to do so executing our strategy. We use the cash to increase shareowner value.

On the last slide, two weeks ago on our fourth quarter '23 earnings call, we explained in addition to providing global competitive advantages, our Brazilian forestlands have significantly increased in value. In the fourth quarter, we commissioned a third party to appraise our forestlands. In December, they valued it at about $1 billion at the current exchange rate. The updated valuation reflects an increase of about $600 million from our 2021 appraisal done by the same firm. Increasing demand for the land and wood in Brazil has driven this increase in valuation. Our forestlands are not only a source of global competitive advantage, but also an enduring repository of shareowner value. George, that concludes my remarks. Thank you.

George:

Thanks, John. Thanks, Arsen. Maybe a question for both of you to start off, and we're grateful that you're here, grateful that you're doing this session again. Packaging we often write is a sector that to stand out as an individual producer, individual company, you've got to do that much more because the whole market cap of packaging paper and forest is, I think the number is something like 0.3% of the S&P 500. Sylvamo and Clearwater, performing well, are arguably smaller cap names, even within packaging paper and forest, which is in itself kind of a SMID cap sector. What additional elements do you try to bring to your strategy with investors to raise your profile, to raise your visibility, aside from conferences, and what might you plan for the future in that regard, such that you get the visibility and hopefully, appropriately, the lower cost of capital. Otherwise, we know what happens as you lose visibility, float goes down, volume goes down, cost capital goes up. Any thoughts in that regard?

John Sims:

Go ahead.

Arsen Kitch:

You're right. We're small companies and we're a small company in our space. For us, what we believe in the long run we'll create value and get investors to focus on us is our performance and strategic clarity for the future. Fundamentally, we do reach outs, we go to conferences, we do those things, but in the long run, if we perform well, we have a clear strategy, we think investors will show interest in us. Last week, we provided some of that strategic clarity to the market where we announced a large acquisition for a small company like us, which is very strategic, it fits us really well. We also announced looking at strategic options for other business. We're getting strategic clarity and I think what you saw over the last seven days in the market reflects, is a good response from our shareholders.

John Sims:

Yeah, George. I think my response can be very similar to Arsen's and only complication we have, of course, is that we're viewed in serving a market that's declining, and as a result of that, you get some misconceptions, views, and biases against businesses that are servicing that market. The important thing for us is to be very clear on our strategy, and also, to help educate investors that what's most important in terms of the ability to earn well above cost of capital and to generate a lot of cash is, does the industry structure you operate in, so how attractive is the industry that we're operating in? We believe that we operate in very attractive markets in the regions we're in, North America, Europe, and Latin America, and that we have a competitive advantage in our low cost, and that we have a very simple strategy. That strategy is that we're going to focus just on improving our competitive positions in uncoated freesheet, and not to be diverted for other strategies. Actually from our perspective, it's a very low risk, high return strategy and the challenges for us to be able to communicate that. That's why we appreciate to be able to here and be able to talk about that.

George:

John, I'll push back a little bit on that, not because I necessarily believe it, but just to get the debate going. An average investor, there are no average investors in this audience right now, but your average investor will say, "Ah, it's uncoated free sheet. It's declining, but why is this actually a good business?" To that uninformed investor who says that, or analyst, what makes your business a good business and how will that answer vary between North America, Europe, and South America? Similarly, Arsen, your key products aren't declining. They seem to be stable to growing, but nonetheless the average investor might say, "Ah, stable. I'm interested in something else where there's more growth." What would you convey about why tissue and why paperboard bleach board are good businesses where people should want to invest to get the return that you'll accrue to them? John, then Arsen.

John Sims:

George, thanks for asking that question, too, because that's why we start out with one is, the core belief with our strategy that Uncoated Freesheet is going to be around for a long, long time. We're going to have a long tail. We clearly would be following the wrong strategy if it's going to zero, but we just don't believe that, and there's no indication that it's going to do that. So then, it comes to, how can this be an attractive business? And it's not very dissimilar from growth industries, and what really determines whether a business is attractive or not is one, is it in an industry that's hospitable to earning profits, earning better than cost of capital returns, and do you have a competitive advantage?

And we believe we can check both of those with Uncoated Freesheet. So, that allows us the opportunities to reinvest and which we believe low risk, high return projects in our core business and make us stronger and not have to take risky bets on that. And the other thing with the industries that we're in, over time naturally, the industry gets more and more hospitable as players exit. And unlike growth industries where you got to spend a lot of money and buy things at premiums to make that happen, in a declining industry or a stagnant industry, a lot of times, and we're seeing this in Uncoated Freesheet, it happens naturally.

George :

Just one point there before we go to Arsen. You made a comment that Uncoated Freesheet's not going to zero and you can prove that. I forget exactly how you phrased it, John. We use a lot of paper. Certainly, I do. I'm doing what I can to help the industry no matter my ratings, just so you know. Having said that, somebody again, skeptically could say, " That sounds great, John, but oh, by the way, industry declined like 15% plus in North America last year," so I do that a few years and zero's in the horizon. Tell me why that's the wrong analysis. Wouldn't be the first time you tell me I'm wrong, so tell me why that's incorrect.

John Sims:

You're going to get, and we are in a cyclical business, is that you're going to get episodics where demand will be worse than average and sometimes they'll be better. Last year, was driven by the anomaly of an inventory correction. More than half of the industry decline was due to the inventory correction. The other part there was, what we call the printing recession. There was a pullback in advertising both in Western Europe and North America that was really due to a fear of a recession coming, so they pulled back advertising. Some was actually real. For example, real estate and loan origination were in a recession. People, because of high interest rates, they weren't. That's going to come back. Our view though is that, if you average it out, it's still going to be around the 3.5% to 4% decline in North America and Western Europe that we've seen in the past.

George:

Okay. Interesting stuff. One thing I want to come back to later in our discussion on that. Arsen, how would you answer the question?

Arsen Kitch:

Yeah. We're fortunate to participate in the couple of markets that have good stable and growing demand. These have historically been the bright spots in the paper industry, both tissue and paperboard. They're strong markets. They're stable. There's modest growth in both markets that tracks generally speaking with population and GDP. Both, especially in paperboard, very strong sustainability trends in packaging and food service, so we believe that that could be a growth engine for the paperboard space in the future. And then talking about us, we have a history of strong cashflow generation. We have good strategic options ahead of us and we have a good track record of de-leveraging, generating cash, and being disciplined the way we operate. Are these the double-digit growth plays? They're not, but these are good, stable businesses that have good demand growth and strong cash flow generation.

George:

What do you think sustainability has added to your business, if anything at all, on the paperboard side, in terms of volume as a way to quantify it? We just had a well-attended luncheon. Many of the folks in this room were at that luncheon where the plastic based companies, understandably and rightly, argued their case. How would you sort of put the props up for paperboard on that report?

Arsen Kitch:

It's hard to put a number on it. Just let me start with that. The COVID years were also a bit disruptive. There was more demand than supply in paperboard. Even if customers were looking to trade, they'd have a hard time getting the supply. I think we'll see the story play out over the next five to 10 years, but it's pretty hard to quantify here in the last few years.

George:

Thank you. Maybe we'll keep moving along with Clearwater in just a second. First, we'll see. Are there any questions in the audience or our esteemed panel? I mean that. We'll keep moving forward. Arsen, as we talked about, there's some things I can and can't go into in my Q&A right now, but what are you talking to your investor about in terms of the strategic review in tissue and why does that make sense now versus in the past?

Arsen Kitch:

Let me start with this. We have a great tissue business. It's performing very well. Fantastic team. 150 million dollars of EBITDA. Last year, we doubled our EBITDA from 22 to 23. Good set of assets, great customer relationships, a very well run business. We have these two businesses under our roof and they're different. They're both paper businesses, but they're different from each other.

George:

And when was the doubling of the EBITDA? What time period again was that?

Arsen Kitch:

22 to 23

George:

Thank you.

Arsen Kitch:

Yep. So a very good tissue business, and we have a great paperboard business, and as we look to grow in paperboard through the acquisition that we announced and some other options that we may have in the future, it makes sense for us at this time for us to look at what options we have for that business. An option could very well be to keep the business and run it. But we owe it to ourselves and our shareholders to look at those options as we've stated, our strategy of growing in paperboard.

George:

Thank you. And as you evaluate your two segments, how do you see them, if at all, different in terms of growth and longer-term return profile, if at all?

Arsen Kitch:

Paper board's been the economic engine of Clearwater for probably the last 10 years. As I've talked about tissue, it's a market that has a very aggregated buyer base. So just a handful of retailers make up the vast majority of their private branded tissue buy, and it has a very disaggregated supplier base. So there is a mismatch. So what I've said before, over and over again, is consolidation is needed in the tissue space to create tissue manufacturers that can be competitive, that can invest in the long run to keep up with the large retailers. And I've said before, we're willing to participate on both ends of that equation. We view paperboard as a very attractive space for us to grow. It's a great industry. We have great end markets, and that's where we're heading. And we'll look at options for tissue.

George:

A lot of fairly commentary Q & A comes in concerns from either the sell side or the buy side in terms of, well, there's more capacity coming into the market. There's imports coming into the market. We'll talk about that in the next panel that we do with Steve Honeyman on box board trends. But to the investor that says, "Eh, box board, paperboard, I've got too much capacity coming into the market. Why do I want to own this?" You would answer?

Arsen Kitch:

Yep, the answer. So let's tackle imports for 10 seconds. Imports, if you look at the data, they're actually down over 20% in 2023. Imports have been around for decades, so this is not a new story. In terms of capacity expansion, there was capacity that was taken out of the market last year, and there's some capacity being added to the market next year. We think fundamentally it's a stable, stable supply market with modest growth and demand. So at least in the medium term, I think it's pretty stable.

George:

Thanks, Arsen. Any questions for Clearwater before we move to Sylvamo for a few questions? So John, what prompted the review of the timberland's valuation in Brazil? Maybe aside from the obvious, but what prompted that?

John Sims:

In the fourth quarter, there were several transactions that occurred and that were public down in Brazil and they valued the land down there pretty significantly. And we thought, well, that actually was in a... Our areas are a little bit more attractive. And so we felt that we needed to conduct an independent assessment of that and that's what we did. So that, as I said, the valuation ended up coming in a billion dollars, about a $600 million increase from when we did the valuation back in 21.

George:

Now we don't cover them as closely as we used to, but in a time when we had direct coverage of the LATAM companies, they would always say there is competitive advantage clearly in having that connection to fiber and the forests, whether it's Suzano or Klabin or whomever.

So we get why you think there's value there, but if you're not willing to disaggregate it, one could say, "Well that's great, but they're never going to monetize it, so why does it really matter to me?" So to that question, what would you say?

John Sims:

Well, I mean, you're exactly right. We feel that the way we clearly get the value of the forest right now is converting it into uncoated free sheet and selling it because it makes us globally competitive. But I think it's also a sense for the - we've been asked by investors in terms of a view of what is the terminal value of this business since you're in a declining market, is what if there was no uncoated free sheet? And we've tried to explain to them that we have a lot of enduring value. This is just one piece of it, but all the assets we have.

So we think that as a result of that, we've been undervalued just from that perspective and that we personally believe that the uncoated free sheet market, as I said, is going to be around for a long, long time. But there was that sense with what's the value of Sylvamo.

George:

And maybe this is just down to corporate tax structure, but- and tax rate. But why is the connection to the land so much more important to South America than it's proven to be in North America?

John Sims:

Well, the source of competitive advantages of the eucalyptus and the cost and all that, as you know, but then there's no other market. So the other thing too is that you get the competitive advantage, not just by the low cost fiber, but having it close to your facilities. And in fact, this creates a competition for the land with the same for the sugar cane producers or the orange groves. They want it closer to processing plants, but for the paper mills and the pulp mills down there, problem is that there's just not a market. And we're seeing that when you do have to go and source fiber, you're paying two to three times what you can- what the cost to grow it is.

George:

Makes sense. Any questions for Sylvamo as we progress here in our discussion?

So Arsen, back to you. You're doing the strategic review of tissue. Obviously you've had developments in paperboard. We'll talk about this maybe a little bit later on as well in our panel. But where do you see the long-term trend for growth in paperboard, one of your esteemed peers, although much more vertically integrated, puts it at 1 to 2% growth. Where do you see your growth opportunity, especially as you're re-serving the independents over time?

Arsen Kitch:

Yeah, we agree. We agree it's historically been stable to that modest growth. There is- if there is upside to that growth number is a faster conversion from plastic to paperboard. So that's one variable that we'll be watching for. We are independent, as you mentioned, and our strategy is now clear, we want to be the leading premier independent supplier. The converters, the North American converters are a diverse, diverse group, and they service many, many end markets from pharmaceutical, to food service, to consumer packaging. So what our goal is, is to develop products that make them successful. We will be their mills. So it is up to us to innovate and provide the right quality and service to those customers to enable them to grow.

George:

Should we worry about the fact that some of their competitors are obviously tied to the larger integrated companies, theoretically, who might have more scale or over time be able to acquire. And so the pie, if you will, that you're looking to serve may... maybe the end market will grow 1, 2%, but it might not grow 1, 2% because the targets are being acquired out from under you. How do you think about that?

Arsen Kitch:

It's a great question. It is something we've given a lot of thought to. There's a place in the industry for both the large integrateds and for the converters, and they serve different purposes. A family owned or small converter will not be servicing cereal boxes, right? But they will be making higher end pharmaceutical products, consumer products. And if you look at the trends over the last 10 years and the growth of smaller CPG brands, more targeted CPG brands, we think it's a pretty robust market and they fill a really important need. And frankly, the larger players are scaled and they care about efficiencies. That is not their sweet spot. So it's a sweet spot of some of these small to medium-sized converters and those are our customers.

George:

What do your customers or their customers tell you about where inventories are in retail at this juncture relative to tissue? I would imagine you don't really have big inventory cycles in tissue, but nonetheless, and certainly in terms of center of store package products, are we done with this packaging recession that we've had for basically since 2Q 22?

Arsen Kitch:

Well, it's interesting. Tissue went through its own destocking in 2021 after COVID, and that lasted for a few quarters. But inventories at the retail level are generally pretty limited. They run pretty lean at the retail level, and we sell directly to retailers. So the pools of inventory and tissue are more limited. So you go from the consumer to the retailer to the producer, which we are. So we really have seen very stable, strong demand in tissue over the last couple of years. Paperboard has a lot more of what I would call pools of inventory, between the consumer's home, the retailer, the CPG company, the converter, the producer, and so on. So the pools of inventory, I think were deeper than I think many folks have realized. We're starting to see normalization and we projected volume growth for us between Q4 into Q1, but I think a meaningful recovery will take place later this year, and it's really as inventories normalize and converters get back to normal ordering patterns.

George:

John, how about you? Where do you see, to the extent that you can comment, inventories in the chain for uncoated free sheet? This is for America in particular, but anywhere else you want to comment?

John Sims:

Yeah, we think the inventory correction is behind us. As we reported in our earnings, backlogs have strengthened across all our businesses at all markets. And so, the demand is, we're seeing it already pickup and demand is stronger.

George:

And on the topic of supply constraints, the unfortunate shipping issues that have arisen because of what's been happening in the Red Sea in the Mid East, what has that meant for your business? What has that meant for customers wanting to restock? Here maybe not so much on finished cut size, but maybe on pulp. And for that matter, what impact has there been from shipping constraints on some of the imported products, especially in Europe, either cut size or converted products relative to your customer base in your business?

John Sims:

Yeah, that's where we've seen the biggest impact right now is imports into Europe. We've seen, particularly from Asia, the lead time has increased out four to six weeks. The cost has increased, so imports are down in Europe. Shipping costs are up across the board. And I think it also, again, it's another global disruption that gives pause to customers who depend on imports as a major source. That's a positive for both North America and for Europe. They're going to be more reliant on domestic supply because of, frankly, the disruptions they had, and you can even go back to 2020 and Covid. It's been a very risky proposition to rely on imports.

George:

Makes sense. Any questions from the audience, either for Arsen or John? We're talking about capital allocation and strategy and lots been going on in Clearwater. John, for you, one of the questions that periodically comes up is, should we worry much about the off-take agreements that you have with your former parent relative to Riverdale and Georgetown, and how should investors gauge that as a risk, if a risk at all?

John Sims:

Well, essentially we've gotten quite a few of those questions even today. So, we have agreements, supply agreements with IP, we've got no indication that any of that's going to change. Right now, they're 10-year agreements. But suffice it to say that we, as Sylvamo, have been planning since day one of the spinoff should International Paper decide that they're going to do something with the Georgetown mill or Riverdale and reduce the supply agreements with us. How can we change our mix, reduce our distribution costs, improve, be able to service our customers even through imports from our other regions? And we've had that planning quite extensively. And so, we're well-prepared should any decision be made by IP.

George:

Thanks for that. Any questions from the audience? Maybe one last thing for Sylvamo from me. Talk about how you're evaluating the individual assets in your portfolio. Not so much, I'm talking about strategic review and you're putting a for sale sign underneath of them, but in terms of what KPIs you use, are you using best practices to evaluate and improve performance on a going forward basis? And related, talk to us about the $ 110 million productivity improvement program, how that's progressing, what's embedded in that, and why should be a reason investors should think about Sylvamo?

John Sims:

Well, I'll start with that. We announced this Project Horizon, $110 million cost improvement. We want to get $110 million run rate by the end of this year. Of that, $30 million of it is in S&A area, sales and administrative. And this is part of the preparation for any decision that's made by, for example, the supply agreements we talked about. We want to make sure that we're well positioned and have the right size organizational structure.

In fact, we've already identified the 150 people and they've been notified and they'll be exiting by the third quarter. In terms of the cost reduction efforts that we have in our supply chain manufacturing, yes, we constantly look at the performance metrics, whether it's machine efficiencies, but we're also very focused on cash related type of indices. So, are we running the facilities to generate the most cash for Sylvamo? And that means things looking at, we may run things and then put it in inventory. It may reduce our cost, for example, at the mill, but increase our cash requirements. Now we're looking more of, how do we generate the most cash with all that we do?

And we're also using technology to help improve our facilities. And in terms of portfolio, we make investments in the facilities that we believe will generate the most cash for the longest period of time. And we have quite a few of those facilities, but that's where we target our investments.

George:

Arsen, on your side, maybe to wrap up, what are you doing within your portfolio, whether or not tissue stays or not to improve productivity on a very structural basis across the business, if you need to do that in the first place?

Arsen Kitch:

We do. So, there's two ways to look at it. One is, call it operational productivity. The other one is capital allocation. So, we've had an operational improvement program for several years. It's well ingrained, it's tracked, it's part of what we do. It's not just something we do for a year.

George:

How much is that generating annually or is there a goal in mind? Forgive me for not knowing.

Arsen Kitch:

We haven't shared that publicly. It's part of our base business to offset margin compression and inflation, and it is pretty well ingrained. The other piece is capital allocation. In this industry, as you know, that's pretty critical to maintain competitive assets. So, we're looking very closely at various capital projects, both small, medium and large, maintain as well as discretionary projects.

In the long run, in the capital intensive industry, you need to operate well, but you need to make really good capital decisions, and that's how these businesses will thrive. So, we look at returns on invested capital and we look at free cash flows, which just also happen to be the key compensation metrics for the management team.

George:

John, I think I know the answer to this question for you, but for Arsen, let's assume pulp pricing is heading much higher. Do you like that world or do you not like that world? Assuming your portfolio is exactly as it is right now?

Arsen Kitch:

We do not like that world, so we buy $300,000 tons of pulp annually. We produce most of our own pulp for paperboard tissue. Tissue is the primary buyer of pulp. It's eucalyptus and hardwood. So for us, We do sell some pulp, but we're not buyers of pulp. So obviously for us, better pulp prices are better for our bottom line.

George:

I'll let you and John fight that out later on. That's all the time we have for this presentation, Arsen, John, thank you so much for your remarks and counsel, with regards your progress. Everybody, join me in thanking Clearwater and Sylvamo for some great discussion.