Capital Allocation Panel (Sylvamo) | BofA Securities 2025 Global Agriculture & Materials Conference | February 26, 2025

George Staphos:

Hi, everybody. Welcome back. I'm George Staphos, B of A's Paper and Packaging Analyst. And next up is our panel on capital allocation. What's the best use of capital for all constituencies? And do equity holders lose when everybody else wins? Now obviously, the answer to that question is no, but we're going to find out how everybody wins in terms of capital allocation choices.

One of the things that we're really proud of this conference over the years is obviously we love the corporate presentation, the firesides, but we have a chance to do panels and expert discussions on key topics from folks who are closest to it and most expert in it. And we are delighted with our panel today.

First off, we have Howard Coker, Chief Executive Officer of Sunoco Products, who I think has had every job at Sunoco over the years having started back in 1985. Howard, welcome.

John Sims:

Thank you, George.

George Staphos:

It's always an honor to have you here. Same for John Sims. John is Senior Vice President, Chief Financial Officer of Sylvamo, having joined Sylvamo through International Paper and you were at IP only going back to 1994. And also John's had a number of senior leadership positions. And then, we have Fredrik Weissenrieder, who is the consultant on capital allocation, in my view, on the paper and paper board industry. His company is the company behind Weissr Capex, the world's first application integrating CapEx budgeting management and strategy facility for the industry. But I know Fredrik has worked with these fine gentlemen on their projects and a number of the other companies that are here at the conference. So Fredrik, thank you for coming, especially with all of the travel issues from and now back to Sweden. So thank you.

Fredrik Weissenrieder:

Thank you.

George Staphos:

And good morning again, everybody. So I guess first off, and this panel is being webcast, which is unusual. Usually the panels we don't webcast. Howard, John, what are your capital allocation priorities for '25 and '26? Broad question, but interesting time given the industry. So capital allocation is going to be a really important way that shareholders get return over the next couple of years. So maybe John, why don't you start and then we'll go to Howard and then we'll go to Fredrik.

John Sims:

Sure. Yeah. In terms of our capital allocation priorities for this year, first and foremost, we're always focused on ensuring that we have a strong balance sheet that allows us to invest through the cycle. And Sylvamo right now has a net debt of around $600 million, so one times EBITDA, so that's not a priority for us this year. But the second use and second priority is ensuring that we're investing to maintain our competitive advantages.

And then, the third, which is the big focus for this year, is reinvesting in really high return projects in our flagship mills that can give us the potential to grow our earnings and cash flow in the future. And that's what we actually announced after when we did our fourth quarter earnings, making $150 million investment in what we call our flagship mill in Eastover, South Carolina, where we're going to be able to increase our production of uncoated free sheet, reduce costs, increase our efficiencies, and generate almost $50 million of additional EBITDA and significant more cash flow going forward. So that's the priority for this year.

George Staphos:

And John, again, that was 150 of CapEx, you said?

John Sims:

That's right, about 145, 145, yeah.

George Staphos:

Yeah. Howard?

Howard Coker:

So very similar to John in terms of the categories. The difference is, is that we have leveraged up. So we've done a couple of acquisitions over the last, call it three, four years. And so, a major focus is certainly to get our debt down to more historical levels. So it's very publicly stated that in terms of the multiple we're looking at over the next two years.

Secondly, and very importantly is our dividend, which this year will be the hundredth consecutive year of paying dividends, so returns to the shareholders in the form of dividends. And thirdly, again, as John said, is capital deployment within the businesses. And frankly, those are somewhat in a priority basis with getting our leverage down, but making sure we're paying our dividend. And we'll talk about this through the course of this conversation I'm sure, George, but really excited about the number of growth capital, productivity capital projects. And the challenge for us in '25 and in '26 is to balance all of that.

George Staphos:

Yeah. Just actually, Howard, just a quickie for you. Remind us again, leverage, you want to get it to under three times in a couple of years?

Howard Coker:

Correct.

George Staphos:

And then, too, if you've looked back over time, how much of your overall return to the shareholder, and if you have a timeframe in mind, comes actually from the dividend? Because I think as investors we always focus on growth. We've always focused on the stock price, rightly.

Howard Coker:

Right.

George Staphos:

But a lot of that return to a shareholder over time comes from the dividend. So if you've looked at it, how much of your return to the shareholders actually come from that a hundred- year record on dividends?

Howard Coker:

Well, if you look at our yield right now, it's around 4.3% or so, which is a reflection of where our share price is right now.

George Staphos:

Yeah.

Howard Coker:

Normally we're around a 3% type. But certainly, while we focus on the dividend, yes, share accretion is extremely important to us. We're in a cycle right now that we'll be coming out of, so there'll be dividend as accretion.

George Staphos:

Thanks, Howard. Fredrik, question for you. As regards projects that you see companies look at, what's the biggest learning that you try to relay to them? What's the biggest pitfall that you see companies as they're allocating capital and particularly to projects tend to be on the watch out or need to be on the watch out for? How would you edify us there?

Fredrik Weissenrieder:

It's good return projects, because good return projects are usually found in mills or in plants where you are not actually making money. So that's what you should watch out for. And I'm not going to explain why that happens now, but as soon as you see in a manufacturing company, if you see a product with a two-year payback, high internal rate of return or high net present value, then it's usually where you don't actually want to invest. But you're led to believe that you want to make that investment because it has such a great return, but you're not making enough money from that business. So that's usually what happens, the short answer.

George Staphos:

So if you can maybe dig a little bit farther into that, Fredrik, I guess my takeaway on this over the years has been that you need to be much more holistic about the investment.

Fredrik Weissenrieder:

Yes.

George Staphos:

If you're getting a good return on the head box, that's great, but the winder may be in deep trouble. You have a 20-year-old car, you fix the tires, but the carburetor may go. So help me understand if in fact we're onto the right track in terms of what you're trying to get at.

Fredrik Weissenrieder:

Yeah, exactly. So the big mistake that company makes, and I'm not surprised they make it because they are taught to do this in school and when they get their first job in the industry, and that is to at all, look at CapEx products. You need to do that, but to answer the question, "Should we do this investment or not?" Then you can never find that answer by looking at that CapEx request and that payback the value that that brings incrementally. You need to look at the whole company in one calculation instead of a CapEx calculation. You need to look at the whole company and how that looks, and then simulate if that CapEx together with everything else that you're going to do, if that brings value or not. And then, the result is usually that these high return products that looks so good, especially when you do your budget ranking, they're actually thrown out the window and you do other things instead, and you make more money as a company.

George Staphos:

Thanks, Fredrik. Any thoughts on that, gentlemen, in terms of how you've looked at some of your bigger projects? Horizon looks like it's doing very well for you, Howard, even though it's been maybe a tougher macro. John, you've got Eastover coming up, so any thoughts on that to the extent that you can share?

John Sims:

Sure. I'll go first.

Howard Coker:

Yeah, sure.

John Sims:

Thank you. Howard, you said you use Weissenrieder. We use his methodology. It is a very systematic approach. You take a very long-term view of your assets and you're making decisions by looking at various projects and opportunities across the systems that maximize your cash flow. And as Fredrik said, sometimes that means projects or capital that would be high returns on mills or facilities that aren't going to last very long, you'll not do those and you'll focus on, and that's why we call these mills in our systems flagship mills. These are mills that are going to be around for a long time because of their competitive positions, because of their technical age, a lot of opportunity to generate a lot of cash, and that's where the edge in your cash comes from. And that's the methodology he talks about is you really want to focus on those investments that are going to generate the most cash for the company long term.

Howard Coker:

Yeah, I think George, putting it in layman's terms, you laid it out beautifully. You've got a car that needs repair work and guess what? It's going to run right after you do that repair work. Or you could go to your main car and invest maybe even less or more, and you're going to get that much more horsepower, that much more longevity, that much more performance by making those type of decisions.

So in our case, working with Fredrik, going back really seven, eight years. You mentioned Horizon, but it started way before that and that's what we ended up with, is two or three really powerful mills while we took out, which we didn't recognize over many, many years, the mills that were demanding capital just to get up the curve and then back in your investing and investing. So I think your analogy is perfect.

George Staphos:

In a world that has been focused on growth, and you look at correlation evaluation, it's really, really high, we did a recent presentation to another company that sort of spoke to that as a key driver. How do you balance the growth and the desire to grow and grow top line, which we all focus on relative to, Hey, I can generate a lot of cash out of my fleet of mills and putting the money there as opposed to maybe doing a new product line.

And similarly, in some ways, what you've just done in terms of the portfolio, TFP, probably most people would say, had maybe a stronger top line growth profile over time than say Eviosys. You may disagree with that, but in terms of how we think about cans, tell us how your capital allocation framework worked in terms of we're going to get more cash and have a stronger position there versus TFP over time.

Howard Coker:

Well, the first part of your question is certainly we focus on both actually, the growth opportunities, the productivity opportunities. But to get to the second side of it, that's really a portfolio question and it's much larger than just capital. What gives you the right to be in a business that you can earn greater returns on than the competitive landscape? And that was part of our analysis with TFP, is our market position and where the market was going.

Growth for growth's sake is not what we're all about. We want to grow and grow profitably, and when you have a position like we have, we see what the majors are doing, we made the shift and so we shifted into what we felt like was core competency businesses that we understood intimately. And with that gives us the opportunity to make the right investments, both from a growth perspective as well as from a productivity perspective. But I just want to repeat that. I've had this conversation a lot, selling our flexibles business, if flexibles is growing three to 4% it does not mean the world's flexibles leaders or companies are all earning the same type of returns and growing at the same rates. And do we have a right to do so?

Fredrik Weissenrieder:

Sorry if I may.

George Staphos:

No, you may.

Fredrik Weissenrieder:

What Howard said now I think is so important. There is some confusion here usually regarding growth industries and businesses that grow versus making money. You don't make more money as a company on a growing market than you do if it's a flat market. That's not what determines it. We see often companies wanting to migrate from doing something that isn't growing much to doing something else on a market that is growing. They think they're going to be making more money when they do that, but that's not true. Absolutely not true. So there's a misunderstanding that people think that growth means that you can make more money. That's simply not true.

George Staphos:

But there has to be sort of a break point, oversimplifying it, so where have you found, and certainly John one could say that the growth outlook for uncoated free sheet is perhaps mature so there has to be a break point where, okay, plus or minus a couple percent, you can make a lot of money investing in those businesses versus, hey, look, the PET business 20 years ago was an arms race, everyone put a lot of money into presses and blow molding equipment. No one ever made any money in it. But it's really hard to make money when you're declining 5%. So when you all have analyzed it, where's that break point to the outside analyst who's asking the question? Whoever wants to start, you start it off Fredrik. So you go for it, and then we'll go to John.

Fredrik Weissenrieder:

So that question, I can say, that can't be answered really, because reality it is more difficult than that. But again, I repeat myself, I know, but on a growing market it doesn't mean at all that you can be making more money. I mean-

George Staphos:

Understood.

Fredrik Weissenrieder:

... it doesn't work out that because that will attract more companies to invest in that segment and then everybody will lose money. So that happens there. On a declining market, if you take uncoated free sheet or newsprint or something, as a company, you can make just as much money that you can on a packaging market that is growing if you make the right decisions. Because making money is not about, if the pricing is good on a market, if it is up or down, if costs are going up or not, if demand is down or up, it's not about that. It's about how you make your decisions and to make sure that you, I don't want to jump ahead now, but to make sure that you make decisions, the right decisions, in the right locations when you should be making it. That's how you make money.

However, I do understand I don't want to be a fool here, I do understand that in a way it is simpler if the market is growing a bit. It is easier then in a sense because it is more predictable and it looks like at least from looking at it from the outside, that spending money when the market is growing, that is going to be a bit easier. While in fact it's not. So I don't think there is a breaking point really, because it's not really about that even.

John Sims:

Yeah. I'll just add to that, Fredrik, and I think how we view it is whether you're going to make money in a growth market or in declining market, it's really driven by simplistically two factors. One, do you have a

competitive advantage? And two, is the industry hospitable to allowing companies within that industry to earn greater than cost of capital returns? And really when you talk about investing in growth, it's all about earnings growth. I mean, that's what you're striving for, but you can do that also in declining industry and that's what you're talking about making right decisions.

And in fact, we find, and this is why Sylvamo is focused on uncoated free sheet, because the markets are hospitable, we have a competitive advantage and we believe that there are higher returns, lower risk projects to grow earnings by reinvesting in our own capabilities, which actually lowers the risk because we know this.

We're not trying to get into markets that we don't know, don't have a competitive advantage, is higher risk. When we seek those type of growth opportunities, we think there's more opportunities. So to the extent that you were talking about, George, is where's the trade-off? Well, until we run out of opportunities to continue to grow our earnings within the uncoated free sheet, we don't see a real need to go for higher risk growth opportunities in other areas. Because you can still grow within, grow your earnings and grow your cash flow even in a declining industry, providing the industry's hospitable and you've got a competitive advantage.

George Staphos:

I mean, one of the things that you both implied is that growing industries bring capital and bring new competitors.

John Sims:

Correct.

Fredrik Weissenrieder:

Yeah, exactly

George Staphos:

Yeah, I just wanted Howard to point out-

Howard Coker:

I mean perfect answers on both sides of me and I would say we are a poster child of exactly what we're talking about here in that 20 years ago we felt like our core franchises weren't growing and we had to grow. So we started entering markets that we probably didn't have a right to enter to begin with. Very crowded. They were growing, highly capital intensive. I can think of one that for every new dollar of sales we had to put a dollar of capital in. Literally.

George Staphos:

Which company? Which business was that?

Howard Coker:

I don't want... And it has to do with, anyway, I'm not going to get into all that, but so here we are. We've decided that we need to focus on what has made us successful. And frankly, if you go back over that 20 years and you look at and graph out, it was those that my predecessor was 20 years ago, they were probably sitting at conferences very similar to this, saying, you're not growing, what the hell are you going to do? They jumped in. Those are the businesses, the core franchises, the ones that we have

leading market positions in that have paved the way for the success of the company over the last twenty-plus years.

George Staphos:

Yep. It's remarkable how the portfolio has kind of done a 180 or 360, I mean a lot of the stuff-

Howard Coker:

Not a 360.

George Staphos:

You know where I was going in that, you did [inaudible 00:20:53]graph, you did the display business. You did Equa-Flex.

Howard Coker:

And just thermoforming flexibles.

George Staphos:

Yep. And the businesses that were generating the value are the ones that are generating the value now and giving you the platform to do metal. What's been the biggest learnings, I guess piggybacking off of that, from M&A and Fredrik again, where would you say companies perhaps trip up on M&A over time? So John and Howard first and then Fredrik in terms of M&A learnings, watch-outs.

John Sims:

Well, I think a couple learnings we have from M&A, large transformational M&A is highly risky, more difficult to do. We found that smaller bolt-on M&A less risky, easier to do, and the company can build a knowledge base and a skill set if you're doing multiples of those. And we're talking about declining and growth industries. If you're acquiring in a growth industry, you're going to buy at a premium. Sellers are generally going to lock in gains and they'll be the winners. The buyers have to either get that growth, get the synergies, and it's more difficult.

In a declining industry, sellers sell at a discount. And the discount increases over time. The longer you wait to sell in a declining industry, the greater the discount's going to be. And in that case, the buyer typically wins and the seller is going to lose going forward.

And I think the other thing though-

George Staphos:

Would there be any parallels with that in, say, Nymolla and how that ... If you could comment.

John Sims:

Yeah. I mean, Nymolla, we were able to buy that at two and a half times. So that's a good example. If you look at even the spin of Sylvamo and the value that the parent company got from that in terms of what our market value is today, that was a discount.

George Staphos:

For the record, we launched on a buy out there on the spin, so there you go. But anyway.

John Sims:

And I think M&A can be very good in terms of a strategic move. But also, we've learned in declining industries, and I think even Howard talked about this and that, you got to be really careful about investing in companies that are moving into markets that they don't know, markets that ... in geographies and they're paying premiums for that. Those are typically much more difficult to get, so that's when you're trying to acquire just for growth's sake.

George Staphos:

Thanks for that, John.

So Howard, help us understand that in terms of how you've now reconfigured the portfolio, you've grown metal, which wasn't something in theory most investors would say Sonoco did or knew very well. Obviously the reality of it was you were in metal for many, many years and were in the can business. But help us understand how you navigated those potential challenges as you built Sonoco Metalpack and then did Eviosys.

Howard Coker:

Yeah, sure. And it started with an earlier part of this discussion of where we were trying to ... As I said in my early days as CEO, is that we're spending too much time looking out the window at the neighbors and the fun and in their growth. And I got a lot of parallels here. But looking internally and saying, "What are our core competencies? What are our core values? What makes our company successful?" And there's a whole host of items that you can put on a whiteboard and define who you are and what's made you successful.

So that's when we said all these disparate businesses, another parallel, as I used to say, if we cannot take a 747 full of Sonoco employees, legacy Sonoco employees, and fly them in to this acquisition in a dark time and be able to run it, then there's a problem maybe. If we have to depend on the acquisition and their leadership to explain to us how to best be successful in this business, it's a problem.

And so that led us down the path. And you said you've been in metal and out of metal, no, we've been in metal for 60, 70 years. We bought Eviosys. Eviosys has been a customer of ours for I don't know how long, for 30 years, buying easy-open ends, et cetera. You mentioned the can business, making a paper can and a metal can, the only difference is the substrate and the end use market. And one's processed food, one's non ... It fit all those categories.

And frankly, we'd been looking at it for years and years, but the world didn't need another metal can producer. Then the strategics said, "Hey," falsely, in my opinion, "many people believe we've perfected the market, we're going to move on." That's not been what we've found. In fact, we talked about the Ball Metalpack in our conference call that 10%, well, I mean, well over double the EBITDA when it was spun off of a strategic under our watch. And so that's kind of where all of that is coming from.

George Staphos:

Thanks, Howard.

Fredrik, how would you advise us and advise companies in terms of pitfalls, learnings of M&A, and anything else that you think would be relevant to this particular part of the discussion?

Fredrik Weissenrieder:

Yeah. We have for three decades now seen the result of acquisitions. So when we do the work we do, we see the mills that the company had had before the acquisition, the legacy mills, and then we see what they acquired. And we can sometimes relate to how much the company paid for that and so on.

And I would say nine out of 10 acquisitions go wrong. And I think John put the words well when he said that, well, if it's on a growing or flat market, you will overpay. And that's what we [inaudible 00:27:46]. Because to be able to buy something, you must offer more money than it's worth for the current owner to want to sell it. And just that simple math makes it unprofitable to acquire.

George Staphos:

Right.

Fredrik Weissenrieder:

It's so simple. So to make an acquisition good, you must bring something that is truly unique because you will not be able to run that business better than the current owner does. I mean, nine out of 10 male drivers think they're better than the average male driver. And you see that also in business, you see the same in acquisitions. But you must assume that you can't do that so there must be something unique. And we see that sometimes, but it is really unusual. So I think that the mindset is so important. Why are we doing this? Can we really be better? What is it actually we bring, if we acquire this, that the current owner cannot do? Something really specific and truly valuable.

George Staphos:

And recognizing it's a small part of the response. It's one out of the 10 deals that you've seen, whether that's true. What's the common denominator when in fact the company has that value add, where they can pay more than it's worth to the owner currently, and be successful on a go-forward basis, where is it?

Fredrik Weissenrieder:

I don't know. So what we see is the timing sometimes, but that's just luck usually that you see suddenly, for instance, pulp prices go up. You acquire a pulp mill and pulp prices go up by 50%, then you're home.

George Staphos:

[inaudible 00:29:25].

Fredrik Weissenrieder:

That's fine.

George Staphos:

A lot of times it goes the other way, from what I've seen.

Fredrik Weissenrieder:

Yeah, I know, I know. Usually what happens though.

But another is if you, for instance, if you're short on paper, if you own converting and you're short on paper, and you always have to buy 500,000 tons on the market, and you acquire a mill that makes those 500,000 tons, that's often a good acquisition. But I don't see much of a pattern really.

But then I would add one more thing, and that is that when companies make the evaluation, the math behind what they want to acquire, they don't think much about how much capital they need to spend in this acquisition target every year just to maintain the EBITDA that they're buying. That capital is usually so much more than they believe. So that's another thing, but that's ...

George Staphos:

And that was a big factor for you, Howard, in terms of, I think from what I heard, whether you stayed in TFP or not, kind of the capital intensity probably in the new businesses is less than the old businesses. Would that be fair?

Howard Coker:

That is correct.

George Staphos:

Fredrik, I'm sorry, you were saying something else here. I just wanted to-

Fredrik Weissenrieder:

I already forgot.

George Staphos:

Yeah. No problem. What do you think, and I know there's no such thing as the right number, but I'm going to ask the question anyway or what the methodology should be, when companies are establishing threshold rates, cost of capital, how would you approach it, Fredrik?

Fredrik Weissenrieder:

You mean the percentage, the weight of cost-

George Staphos:

Yeah.

Fredrik Weissenrieder:

Oh. Well, we usually just ask the client what they use because from the work we do, that number is not very important if it's up or down 1%, and then we just complain if we don't believe it's within the range.

But I mean, we just want it to be mathematically calculated so it's not an opinion. Because sometimes companies have opinions about capital cost, and that's the wrong approach. They need to calculate. Because capital cost for a company, if you're a listed company, that is given to you from the market, it's not something you can have an opinion on. So I guess as long as you ... yeah.

George Staphos:

But I've heard two things there. So you get it from the company, but you want to mathematically calculate it.

Fredrik Weissenrieder:

Yeah.

George Staphos:

So if I'm your client and I say, " Fredrik, my cost of capital is 4%. Trust me on that." If it was up to you, what would you have people use as the right methodology to establish that numeric?

Fredrik Weissenrieder:

Well, I would just go to the textbook and just say, "What's your weight of debt? What's your weight of equity?" And it should be market based. And then I'd look at what is the cost of debt and how do you ... And then try to calculate the cost of equity for that type of company, and make some appropriate tax adjustments possibly and then you get it.

So it's not going to be 4% and it's not going to be 20% just because somebody wants that return. It doesn't work like that. If you have a high capital cost just because you want projects, you have high capital cost, you're going to get to the opposite. You're going to get low returns instead. You're going to lose money, so you don't want to do that either. You need to find the right ... But you don't need an exact number, it's not that sensitive to that.

George Staphos:

Yeah. Thanks. John, Howard, how would you answer that question recognizing there's not going to be a single answer. And then one last question, somewhat unrelatedly, how important will buybacks be for Sunoco and Sylvamo over the next couple of years, recognizing they've been important over time, so cost of capital and buybacks. Howard, maybe you start and then John.

Howard Coker:

Yeah, I first off agree obviously with what Fredrik's saying, but certainly we look at it as well as from a geographic perspective. So if we're looking at a capital project in Eastern Europe or you name it, to look at your weighted average total corporate capital cost, I don't know, and Fredrik, you may disagree with me, but we look at it from the currency and the market that we're investing that capital. So that would be the only thing I'd add to that side of it. Buybacks, I think your opening question was the right question. We're focused on debt dividend and the internal capital deployment right now, so hang on for a period of time until we get our debt levels at the right ratios.

John Sims:

The same thing. We look at on a geographic basis. We calculate the weighted average cost of capital using textbook methods, but in reality, like Fredrik said, whether it's 10 or 12% is not going to really change because we target for high return projects, we target 20, 22%. And the way we also think about it is, as we said, we use a very systematic approach, so we want to make sure that we're doing the investments that have the longest term, longest probability of getting, generate the most cash going forward.

But we also think if investments, if there wasn't any uncertainty in the markets, the investments would be easy, but there is uncertainty. So one thing that we really think about is we try to develop probabilistic views of different outcomes and we try to make decisions on our capitals and this even gets into our share buybacks in terms of we look at what the range of possible outcomes and make a decision that puts us, that has the highest probability of getting those 20, 20% returns. So that's really

what's driving us is not so much whether it's the cost of capital or not because we target very high returns, but we're also looking at a probabilistic view of different outcomes out in the future.

In terms of buybacks, when we think about in terms of our capital priorities and its debt, but our balance sheet is strong, it's the dividends sustaining the dividends that doesn't strategically hamper us, but that returns cash back to shareholders, reinvesting back in our business to make sure we maintain our competitive advantages and then it's investing in these high return projects and grow our earnings, but we have a limited capability to do that. I mean we have a significant number of projects that we can do, but we only have the capability to execute that, so we're a cash flow story that leaves a lot of cash. So what are you going to do with that cash?

And it's either hold it in cash, it's pay down debt. That also then allows us the flexibility to buy shares or do things like acquisitions or things like that, or it's buyback shares. And we're looking in that anytime that the value of the market is below our intrinsic value and we have a range, we calculate the various ranges of our intrinsic value based on the probabilistic views of outcomes. We take the lower that range. Anytime the share price is below that, we'll look at opportunities to buy back shares. Because we're generating more cash and we can reinvest back in the business, I think share repurchases will continue to be part of our ongoing return to cash provided that the market price is below the intrinsic value.

George Staphos:

And John, the ability to reinvest that cash, your inability to reinvest all the cash that you've got into project. Is that more function of the product or more a function of the bandwidth in terms of-

John Sims:

Just the bandwidth.

George Staphos:

Yeah.

John Sims:

We want to make sure that we execute those well and so we're limited somewhat by our own internal capabilities.

George Staphos:

Fredrik, maybe a quick one to wind up as we're at the end here. Are there any regions or any product lines that you really would say, "Guys, think twice before you invest there?" And what do you think the spread between different regions is in terms of cost of capital now? Is it North America is still the least risky and so it should be 0.5% below Europe, which should be 1% below South America. Any thoughts on that and we'll wrap?

Fredrik Weissenrieder:

Well, I'll begin with the last one and then you maybe have to remind me what the first one was anyways.

George Staphos:

Sure.

Fredrik Weissenrieder:

Usually the differences between regions is inflation driven, so you'll have one in Brazil that's going to be higher because that has a higher inflation. Then it could be also risk driven and you may want to consider that in the weighted average cost of capital or you do it in sensitivity analysis. I would do it in sensitivity analysis typically, but I don't think it matters much because usually a small correction, the large correction is going to be the inflation factor.

And what was the first one? Oh, regions. Well, I shouldn't mention due to recent [inaudible 00:39:25], but if you're on a declining market but you have price discipline in the sense that the large producers in that industry is good at taking out capacity when they need to and so on to keep up prices, then it's okay to invest there. Then I think it's a good company, good products and so on. If you have the same situation but you have lots of small players or the large players, they don't take responsibility with their capacity and take out capacity when they need to, then that's going to lead to a crash in the sales prices and there you should never, ever invest.

And I think it's kind of easy. It's not rocket science really. And regions, I don't know. I've always preferred myself to invest my own time in democracies and I think that's a good, I remember we talked about that once a couple of years ago when it comes to sampling. Anyways. To invest in democracies, that's what you should be doing.

George Staphos:

Good deal. Well, we're out of time. Fantastic and fascinating dialogue. Fredrik, Howard, John, thank you very much. Everybody, please join me in thanking our capital allocation panel.

John Sims:

Thank you.