Sylvamo Corporation | BofA Securities 2025 Global Agriculture & Materials Conference | February 26, 2025

George:

I'm very pleased that the company's back again and Senior Vice President, Chief Financial Officer for the company, John Sims is here to take us through how the company creates value for all of its investors and how it's focused on a couple of really, really interesting high return projects. So John's going to go through a few slides and then we'll get into Q&A. So John, take it away.

John Sims:

Thank you, George. So we're going to webcast this, so I'm going to call out the slides as I flip through it, pass through all the disclaimers. I won't read that.

So good afternoon everyone. I'm on slide four. Our strategy is to be singularly focused on uncoated freesheet because we believe that uncoated freesheet will be needed for a long time. Uncoated freesheet, the product we make, remains the largest and most resilient printing and writing paper, and we view the uncoated freesheet industry landscape as an opportunity. Competitors have been investing to get out of uncoated freesheet rather than investing to enter into the space. We, on the other hand, are investing to strengthen our competitive advantages and to generate earnings and cash flow. We view these investments as high return and low risk as we are staying in our core product line, uncoated freesheet. We leverage our strengths, talented teams, iconic brands, strategic channel partners in low cost mills and attractive regions to drive returns on invested capital.

Let's move to slide five. We are delivering strong financial performances, becoming an independent company. As you can see with our full year key financial metrics. Our adjusted EBITDA has averaged $653 million with an average 18% margin. Our free cash flow has averaged $270 million and our adjusted operating earnings has ranged from $6.51 to $7.84 per share. We now have three full years under our belt since becoming an independent company. Our financial results have established a strong track record and are indicative of our ability to navigate tough industry conditions, challenging geopolitical events, and other uncertainty that we may have faced. We are committed to being the investment of choice and believe we can continue to generate significant shareowner returns in the future by executing our strategy.

I'm now on the next slide. We strive to create long-term shareowner value by executing our strategy. Since becoming independent company, we've achieved a total shareholder return of 150%, earned over $2 billion in adjusted EBITDA. Generated over $900 million of free cash flow, reduced our debt by $725 million, we've reinvested over $600 million to strengthen our business and returned almost $350 million in cash to our shareowners.

Let's move to slide seven. We have generated substantial cash since our inception and have allocated over $1.8 billion as you can see on this slide. Over 70% of this cash was used to repay debt and reinvest in our business. After starting out with over $1.5 billion in gross debt, we've reduced it by almost 50% and have achieved a net debt to adjusted EBITDA ratio of 0.9 by the end of 2024. Keeping a healthy

financial position is a cornerstone of our capital allocation framework. This allows us to reinvest in our business to strengthen our competitive advantages through the cycle and to increase future earnings and cash flow.

As I mentioned earlier, many people are investing to get out of uncoated freesheet. While we've invested over $600 million in our business in these last three years in order to improve our competitive position. One of the main advantages we have as an independent company is it allows us to invest in our future in a way that we could not do so before. Improving our financial position allowed us to return almost $350 million to shareowners through dividends and share repurchases, and we'll continue to look for opportunities to repurchase shares of attractive prices. We have generated substantial cash over the past three years and plan to continue to do so.

Let's move to slide eight. Two weeks ago, we announced that we are investing in the future of one of our flagship mills, Eastover, South Carolina. We have three high return projects that will reduce costs while improving efficiency and mix of the most competitive uncoated freesheet mill in North America.

First, we're investing to optimize one of our two paper machines.

Second, we're replacing an existing cutsize sheeter with a brand new sheeter. These two projects will require total investment of $145 million over the next three years. The spending will start this year with a majority occurring in 2026. Once completed, these combined investments should have an internal rate of return of greater than 30%. They should create incremental adjusted EBITDA of more than $50 million per year, resulting in additional cash flow as well.

And third, we're partnering with an industry leader in the wood yard operations to modernize our wood yard and improve our efficiency while avoiding about $75 million in capital over the next five years.

On the next slide, I'll talk a little bit more about these high return projects. The first of these high return projects at our flagship mill will be to optimize one of our two paper machines, modernizing it to the same world-class level as the other paper machine at the facility. We plan to make the investments starting at the head box and continuing all the way down the paper machine that will allow us to reduce costs while improving our product mix across both paper machines. This debottlenecking should result in up to an incremental 60,000 tons of uncoated freesheet. The project has an investment of approximately $100 million dollars over the next three years, and expected startup is the fourth quarter of 2026.

Turn to slide 10. The second high return project, we'll replace an existing sheeter with a state-of-art cut size sheeter. The new and more efficient sheeter will lower our sheeting costs by up to 15%, reduce waste by maximizing paper machine trim while providing incremental cutsize volume capability. This sheeter will allow us to reduce outsourced sheeting while provide better reliability and additional flexibility to better service customers. The $45 million project expect to start up in the fourth quarter of 2026.

On to slide 11, the third project will be to improve our wood yard efficiency through innovative modernization. We are entering into a 20-year partnership with the external provider, The Price Companies, who design, finance and operate the most efficient wood yards in the world. They will invest the capital to upgrade our wood yard and they'll operate and maintain the wood yard at our Eastover Mill. This will result in more efficient, reliable, and cost-effective wood processing operations. This project will also enable us to avoid spending $75 million in capital over the next five years. The anticipated startup is in the first quarter of 2026.

And now I'm going to wrap up my comments on slide 12. These high return projects at our flagship Eastover Mill reinforce our commitments to reinvest, to strengthen our low cost assets. Reinvesting in our business through great pipeline of high return capital projects is going to enable us to grow our

earnings and cash flow in coming years. Sylvamo is creating shareowner value through strong cash generation and disciplined capital allocation. We believe in the promise of paper for education, communication, entertainment, and we intend to increase our competitive advantages in the regions we serve. We are confident in our future and motivated by the opportunities. George that wraps up my prepared remarks.

George:

Thanks, John. Have a seat. Thanks again for the presentation for joining us. It's been a great story since the spin. Did you say, I just want to make sure that the total return to shareholders from the time the spin was 150%. Is that correct?

John Sims:

Total shareholder return since the time we spun to the end of the fourth quarter last year.

George:

So you can make money in paper, everybody, just so you know. Anybody listening in the audience and on the web, I should say, how did the project at Eastover come about? What was the catalyzing event where you said, "Yeah, this is the right time right now." Based on what? What was the catalyst?

John Sims:

Well, I think one of the catalysts, George, was the spin. As I said earlier, companies and even our parent company was not willing to reinvest significant capital into uncoated freesheet business going forward, although it was a strong cash generation. We, on the other hand, as you know, is our strategy is to focus on uncoated freesheet. It's also to strengthen our competitive position within that market, but we're also looking at opportunities that we can reinvest the capital to grow our earnings and cash flow. I think a lot of people have the misconception, the belief that because we're in a declining industry, even potential with the cessation of the Riverdale and then maybe the Georgetown, that we can't grow our earnings and cash flow, and we can. And as we said, we think this is a high return, low risk project. Low risk, because we know the business, we know the asset, we know what we're doing, and so really the genesis of it was the ability to increase uncoated freesheet out of a flagship core mill that's going to be around a long time. We talked about this, George, in our earlier session. We talked about capital allocation. We take a system view of our business, we look at the assets that are going to be around a long time generating cash, and those we call our flagship mills, and those are the ones that we're willing to invest in.

George:

Now did you say, I don't recall, Eastover has two PMs and this-

John Sims:

Two paper machines and a pulp dryer.

George:

Okay. So the other paper machine didn't need quite the same investment. This is bringing... Is it PM-2 who's getting the investment here?

John Sims:

Yeah. The other paper machine actually... International Paper did do the investment and upgraded that machine. I think that was around 2010 or so. So it debottlenecks. We're pulp long, but this allows us to increase the speed and also change our mix or have more flexibility on the mix of products.

George:

Interesting. How do you get that flexibility on the mix off of it?

John Sims:

Really it's on the winder side. Really we can cut different size rolls much easier. Instead of just long sheeter rolls, we can do commercial printing, roll offsets, and things like that much more efficient.

George:

Would that have any effect on why you also invested in the sheeter? I would imagine the sheeter is really separate and away from whatever you do on the winder and the master rolls.

John Sims:

Well, the main impetus for the sheeter was cost saving. We're taking an eight pocket sheeter, and we're replacing it with a 13 pocket sheeter. What that really does is allows us to fully trim the paper machine, so we don't have trim rolls that are waste. But you also, you can imagine, you're getting almost 70% productivity because it takes about the same amount of crew to run an eight pocket sheeter as it does a 13 pocket sheeter. And so you're just being so much more efficient. And because we get increased capacity out of that, we actually go to the outside and use outside sheeting, third party sheeting. We're not going to have to pay for that, and so we can bring that in house, and that's why you get the 15% cost savings on the sheeter.

George:

What are you going to do with the extra 60,000 tons? If I remember from the slide, the investment's going to get you an incremental-

John Sims:

Around 60.

George:

Yeah,

John Sims:

George, if we had our preference, we'd take all the market pulp that we're selling out of Georgetown and turn it into cutsize. Why? Or any uncoated freesheet, because we make so much more higher margins on uncoated freesheet. So we intend to sell it domestically within the market. But 60,000 tons is very small percentage of the overall market, and there's capacity that's coming out, as we know, like Georgetown, we just announced in the fourth quarter.

George:

Understood. Thanks for that rundown, John. Any questions for John Sims in terms of the topics we've been hitting on so far? If not, John, let's keep moving forward. Some of the topics I want... Actually, I want to stay on at Eastover, if you don't mind. Tell me a little bit more about the Price Company and what they're going to be able to do for you in the wood yard, and do you have an opportunity to replicate this at other flagship mills?

John Sims:

Yeah, so the Price Company, this is what they do. So they operate mostly in North America, but they operate wood yards very efficiently. So what they were able to do is modernize our equipment. Part of our strategic plan we had in our capital plans is that we needed to upgrade and replace the wood yard equipment in Eastover. So the Price Company is doing that for us. They're investing $75 million. Now, we are paying them, so it's going to be more costly from a payment perspective than our own employees running it internally. But what we gain is all the efficiency, the yield on the wood savings, because the equipment is more modern. And so that savings offsets the increased costs that we have in terms of paying them that service. But then again, we're getting all that and avoiding $75 million of capital.

George:

Remind me, as they update the wood yard, do you have to take down time? How are you getting chips in? Are you basically sort of stopping operations until you get that installed?

John Sims:

No, they can do it side by, so it won't impact our operations, which is a benefit too.

George:

Sure. So, right. So is there an opportunity, is there a need, to do this at other mills over the next, whatever, three years?

John Sims:

Well, the team is looking at that. We own our own operations and stuff from a wood yard perspective down in Brazil, and I think that would be a new market for them, the Price Company, down in Brazil. So right now we don't see any other opportunities within our system, but we're certainly going to be looking at that.

George:

Understood. Any questions in the audience in terms of, again, the investments in Eastover, some of the topics that we've talked about? Keep moving ahead.

John Sims:

Good.

George:

So one question I had for you, we hear a lot about AI and how it's being invested in. Is there much application for Sylvamo to use this, either from a cost standpoint or maybe revenue enhancement down the road?

John Sims:

Yes, there is. And I'll tell you, we're at the infancy of it, to be honest with you, George, but there's probably a lot of opportunity, and we're using some of it, is in our operations in the mill side. I mean, if you think about it, if they can train a car to drive without a person, then can you operate a paper machine? Can you operate a mill without that? Now, that requires a lot of instrumentation, digitizations of the operating system, and that has to be first installed and in place. Then you can collect the data, and then you can start to do machine learning, where you're learning from the operators and learning that. But yeah, I think there's probably a lot of potential in the paper industry to do that. And I would say there are other paper manufacturers that are heading down that road.

George:

Is the opportunity much more necessarily on the operations side, or from what you can see and as you've studied it, hey, there's a real revenue enhancing opportunity over time from AI that you can point to?

John Sims:

Well, not that we can point to, but it doesn't mean it doesn't exist now.

George:

Understood.

John Sims:

There's certainly areas and opportunities around supply chain, supply planning, and those type of things that could make us also more efficient on the operation side.

George:

One question that I think everyone would ask that follows you, either buy-side or sell-side, is how many more Eastovers are there? This is a good thing, and earlier we were talking. It's really more bandwidth that you've got to manage in terms of these projects as opposed to having the capital and putting it into place. So to the extent that you can talk about the future, how many more Eastovers are there, or how should we think about that concept overall?

John Sims:

Yeah, what I would say to you is when we initially separated from International Paper, we said there were about a hundred million dollars of high return projects. Now we've upped that to 200, of which 150 of it is part of this. That means if you do all the math and say, we'll probably got around 50 to $70 million that we've identified, and we're not going to be on the scale of $150 million, but you can really split those into two projects, a sheeter and the paper machine.

But there are other opportunities that we're identifying and working that aren't at the same scale as the Eastover, but it could be about half the scale. And that's why it's given us confidence, George. We really do believe that, even with declining revenue, that we can grow our earnings and cash flow going forward just by staying focused on uncoated freesheets. So we think there's an opportunity for us to continue to reinvest in high return, low risk projects and grow our earnings and cash flow.

George:

So in that framework, John, and we talked a little bit about it today, just putting money into the best projects, the best machines. You know, Fredrik's in the audience. That's one of his key points. We look at your segments, and we're analysts, right? We're not running the company as you and Jean-Michel are.

But we see North America, hey, pretty good EBITDA per ton. We see South America, hey, pretty good EBITDA per ton, $200, give or take. Europe, tougher place to be in.

John Sims:

Yes.

George:

Now, you're performing better than others, clearly, but it's not performing at the same level as the other segments. So, does that suggest over time Europe might not get as much investment? Or how should we think about Europe, the opportunity for investment, and overall how you evaluate your portfolio?

John Sims:

Yes, that's a good question. Clearly, when we look at our different markets, and really when it comes to investments, we're looking at, is the markets we're operating in hospitable to us, earning above cost of capital returns, actually, well above cost of capital returns off these investments, if we're targeting returns every 20%? Clearly, as you say, North America is, LATAM, Brazil is. Europe is a bet on the future, and essentially Europe right now, we would not classify it as hospitable. Are we investing in Europe? Yes, we're investing to maintain our low-cost position.

We are trying to do some things to improve our cost position as we wait for the industry to further consolidate, which it's doing as players exit. For example, we got the synergies from the Nymolla. We're going to be talking about that more in the next quarterly earnings, but we have exceeded our target there. You don't see that at the bottom line because of the difficult market that we're experiencing there.

George:

Yup.

John Sims:

In Saillat, have made an investment that we're going to be able to ... Saillat's strength is this specialty business. It's a low-cost specialty. It is not a low-cost commodity business, so investments we've made is to be able to move our mix more into the specialty business. We haven't talked too much about that, but we're going to see that starting in 2026.

Prior to the spend, there was a significant investment in a bioenergy project. We're not seeing the benefit of that, because it's in partnership with a French company called Dalkia, an energy company that made the investment into the bioenergy, but you have to depreciate that off the first five years. But around 2028, we'll start to see the full benefit of that. To all this point is it's going to give us a little bit more cost advantage, earning powers as we wait for the industry to, in our belief, become more and more like what we're seeing in North America as it consolidates.

George:

From your vantage point, and trying not to tread at all where you can't or shouldn't, I guess that's the same thing, do you need to see more consolidation? Or is it just, "Hey, we need to see a steepening of the cost curve with pulp and the like"? And to some degree, part of what prompts the question is, who knows what's going to happen in terms of the Ukraine-Russia conflict? But that was one thing that steepened the cost curve. If peace breaks out, is that necessarily a good thing or a bad thing in terms of just cost curve positioning?

John Sims:

Yeah, so to answer your first question, George, yeah, so I think we need ... And that's what the bet on the future is that the industry will consolidate, and this is our view is that if you look at declining markets, this happens naturally, and it has been happening in Europe. As we said, companies aren't willing to invest in their uncoated freesheet assets, so they're exiting it. The cost to stay in gets higher as it goes on, because the back end of the mill, capital equipment starts. You have to start to replace that and then companies have to make a decision, are you willing to invest to stay in, or do you exit? So that will naturally occur. Now, how fast it will occur is the question.

One of the things that does speed it up is a steepening on the curve. As you mentioned, that happened. The invasion of Ukrainian did significantly increase costs, both in wood and energy. Now, to the extent that that gets resolved, that could help, because Russian wood was no longer coming into Finland, and then Belarusian wood wasn't coming into Europe, and so wood costs could drop, energy costs could drop. And it would lower the cost curve, but it would help. It certainly would be beneficial to Sylvamo.

George:

Yeah. That would be because the overall environment presumably would be better. We'd see stronger consumption for it.

John Sims:

That's right. Yeah. One of the headwinds that we've had is the wood cost at the Nymolla mill.

George:

Yeah.

John Sims:

Yeah.

George:

One of the interesting things that we saw at an industry conference back this past fall, when you get to the coated paper markets in North America, there almost aren't enough machines left to further close, because if you close one, you're out of business, so you have kind of a real ultimate prisoner's dilemma. It doesn't sound like we have to worry about that for any time soon in North America or Europe, or how would you have us think about that?

John Sims:

No, I think we're far away from that. I mean, the projections for demand, really, you think about the regions that we operate in, North America, LATAM, and in Europe, out to 2040, the total demand could

be about 9 million tons, so there's still a lot of demand that would go. Now your question is, I think it's whether capacity closes or converts. There's opportunities also to convert some of the low-cost assets, and I think that'll continue to be around, particularly in North America.

George:

I mean, the point being, if I'm ... Hypothetically now, and again, not trying to get into anything that you can't talk to, but if I'm one of two people left producing a certain product, and I leave, I'm out of business and the person left reaps all the benefit, which then in turn sort of coagulates the process. We don't have that, but we're not there yet in [inaudible 00:27:34] yeah.

John Sims:

No, we're certainly not there in North America, because we're the only one that's really dependent upon uncoated freesheet in North America. In Europe, there are some smaller players, but you're actually seeing some of those players already moving and converting into other grades, packaging grades. What we're seeing in Europe too is a bigger move from plastic to paper, particularly in packaging and flexible packaging, and those types of things. And so you see in conversions, and also we're seeing some in the US, but plastic bags, shopping bags and all that stuff from Europe is moving pretty quickly away from plastic to paper. And that's given uncoated freesheet players opportunities in moving to the set kraft business.

George:

It was a highly controversial topic at lunch today.

John Sims:

What was it?

George:

Plastic versus paper in bags. But you also said that globally, you think uncoated freesheet is still 40 million ... 9 million tons, just-

John Sims:

Well, that's just the markets we're in.

George:

Yeah.

John Sims:

So, that's just North America, LATAM, and Europe.

George:

Out to 2040?

John Sims:

2040, right. So, if you look at the global picture, it's probably close to 35, 40 million tons.

George:

Okay. Any questions for John in the audience?

So, how have you been making up for Georgetown's change in terms of the product mix? If you can just fill us in there.

John Sims:

Yeah, so Georgetown, as we mentioned, we kept about 100,000 tons of what they were producing. So in last year, we got about 250, 000 tons of products, various product lines, some uncoated freesheets, some into the Bristols and file folder area. We kept about 100,000 of that, moved that to Ticonderoga. The other 150 was absorbed by other industry players in North America. And George, we said the net impact, based on 2024 numbers, that means same pricing in '24 costs, was negative $40 million. But you know as Jean-Michel mentioned on our last earning calls, we believe that North America earnings will be higher this year than it was last year. So, even with 150,000 less tons, earnings will be higher, one, because we get the benefit of our cost reduction, Project Horizon, and we're seeing the full benefit of that into this year. Then we're also, as we mentioned, out with a price increase with our customers in the first quarter.

George:

I won't ask you about pricing per se, but one of the things we did suggest we might have as a topic is early trends in 2025. Look, it's January, it's February. It's not the most meaningful part of the year per se, but it's been a little soft, and even going back into late 2024 in terms of shipments and consumption, what do you attribute that to, if anything? It doesn't sound like you're terribly worried by it, but if you could, for the investor who's looking at Sylvamo and saying, "Oh gee, how's the industry going?", and they see the shipment data from the PPPC or somebody else as a little bit weaker, what would you say?

John Sims:

Yeah. For North America, like we said, we talked about there was a little bit of weakness versus our outlook in the fourth quarter, and most of that was in the direct mail commercial printing area. I'll tell you now that we're-

George:

Is that a hangover from the elections?

John Sims:

I think so. I think also what we see-

George:

Amazing.

John Sims:

Sometimes we get this in the end of the year. They'll drive their inventories low because they're closing their books. I would tell you right now that our order book is good in North America. Also, we're seeing good orders across the system, really.

George:

That's great.

John Sims:

Even in Europe. About 7% of capacity was shut in Europe and we're seeing good order bookings for the whole quarter this quarter.

George:

So, your view is it was, hey, look, it was an election year. We see the normal drawdown of shipments following the election and some de-stocking inventory management into the end of the year, but nothing to be alarmed about.

John Sims:

Nothing to be alarmed about, but also, we're benefiting from the capacity closures. There was capacity taken out of both North America and in Europe and that's helping us from... As I said, we transferred tons from Georgetown into Ticonderoga and so our system is running full.

George:

To the investor who looks at Sylvamo, how important is the pace of growth in packaging grades? Because in a world where packaging in theory is growing, although we learned earlier today that growth isn't necessarily all it's cracked up to be from a profit standpoint as we all know... You know where I'm going. That could suck capacity out of the graphic paper market, which would be good for you, and the reverse if you buy the premise, maybe you don't, would be true as well. How should investors look at that balance between packaging grade, demand trends, and what it means ultimately for graphic paper and uncoated freesheet and whether they should be investing in Sylvamo or not?

John Sims:

Well, I think it's really pertinent to North America. I think what we're seeing-

George:

And less so elsewhere?

John Sims:

Yeah, not so in LatAm. Nobody's really converting any of that capacity. That's going to be running uncoated freesheet. In Europe, not the same dynamics, but it could occur because low-cost, uncoated freesheet machines do make good conversion opportunities for both integrated or non-integrated. We saw one of our competitors took a very low-cost integrated uncoated freesheet and turned it into a recycled-

George:

Containerboard.

John Sims:

... container board. That was probably a really good move on their part. So, what we're singing to you, and I think it does make... It could have a big impact, and one of the things that we said in our third quarter earnings is when we talked about the Georgetown closure and we talked about the fact that Georgetown would potentially have a negative $40 million impact to us, we did talk about Riverdale. The reason we did that is because we had always believed that from the day we spun it, IP would convert that Riverdale machine to container board, the one they're supplying with, but the market turned south on them. So, there's a possibility that they make something... They haven't informed us this, but it could be a potential they make an announcement on that.

We said that we've been preparing for this for day one, and we believe it would be net neutral to us. Why? Because we can take volume that we're shipping from our Brazilian facilities and upgrade the profit mix. We could take them from the LatAm, low-world margin areas and ship them up to the US and we'd be profit neutral, but the reason we're saying this is that the impact of what decisions are made in containerboard here does impact the North America market. So, there could be the Riverdale conversion, which would reduce capacity. There would also be opportunities for other players with low-cost uncoated freesheet machines, and some of them have talked about potential conversions, using that as an opportunity to convert and go forward. So, I think it's important as you look at Sylvamo, you're looking at what's happening to the container board business in North America.

George:

But you're not getting into any conversions anytime soon, I don't think.

John Sims:

No, we're not going to be converting.

George:

I wasn't going there with the questions, just having a little fun. Any last questions before we wrap up here with John and Sylvamo? Going once, going twice. Also, have to mention that Sylvamo did a great job on our capital allocation panel and if you have any questions further, Hans from investor relations is here, leads the effort. Company does a great job on that front as well.

John Sims:

He does, thank you.

George:

Please join me thanking Sylvamo for a great presentation.

John Sims:

Thank you, George. Appreciate you.