# Transcript

**SYLVAMO: 3rd Quarter 2023 Earnings**
November 9, 2023/9:00 a.m. CST

**SPEAKERS**
Hans Bjorkman – Vice President, Investor Relations
Jean-Michel Ribiéras – Chairman and CEO
John Sims – Senior Vice President and CFO

**SPEAKERS**
George Staphos – Bank of America
Matthew McKellar – RBC Capital Markets

**PRESENTATION**

Moderator

Welcome to Sylvamo's Third Quarter 2023 Earnings Conference call. All line have been placed on mute to prevent any background noise. After the speaker's remarks, you will have an opportunity to ask questions. As a reminder, your conference is being recorded.

I would now like to turn the call over to Hans Bjorkman, Vice President, Investor Relations.

H. Bjorkman

Good morning, and thank you for joining our call today. Our speakers this morning are Jean-Michel Ribiéras, Chairman and Chief Executive Officer and John Sims, Senior Vice President and Chief Financial Officer.

Slides 2 and 3 contain important information, including certain legal disclaimers. For example, during this call, we will make forward-looking statements that are subject to risks and uncertainties. We will also present certain non-US GAAP financial information. Reconciliations of those figures to US GAAP financial measures are available in the appendix. Our website also contains copies of the third quarter 2023 earnings press release as well as today's presentation.

With that, I'll turn the call over to Jean-Michel.

J. Ribiéras

Thanks, Hans. Good morning and thank you for joining our call. Let's turn to Slide 4, please. In the third quarter, we achieved $158 million in adjusted EBITDA and generated strong free cash flow of $155 million. We achieved adjusted operating earnings of $1.70 per share.

Price and mix, operation and input transportation costs were all favorable to the outlook we provided in our second quarter call. Our third quarter volume was short of our expectations reflecting ongoing China inventory destocking and weaker than expected demand.

We strengthened our financial position in the third quarter with net debt of $796 million, another 1.2x net debt to adjusted EBITDA ratio. We also deposited $60 million in escrow to remove cash return limits related to the Brazil tax dispute in our credit agreement, while returning $24 million in cash to shareholders in the quarter.

Slide 5 compares our third quarter key financial metrics versus prior periods. In the third quarter, our earnings were better than our outlook and we took measures to maximize free cash flow, including selling and administrative cost reduction, shrinking working capital and adjusting the timing of capital spending. I'm proud of how our teams collaborated to take care of our customer needs while executing significant economic downtime safely and as efficiently as possible.

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

J. Sims

Thank you, Jean-Michel. Good morning, everyone and thanks for joining our call. Slide 6 shows our third quarter earnings bridge. As Jean-Michel stated, we earned $158 million of adjusted EBITDA in the quarter, which was slightly higher than our guidance of $130 million to $150 million.

Let's discuss the changes versus the second quarter adjusted EBITDA. Price and mix decreased by $55 million due primarily to lower paper prices in Europe and Latin America export markets, as well as lower global pulp sales. Volume increased by $6 million in the Americas, while Europe remained stable. Operations and other costs improved by $1 million with better operating and supply chain results offset by $13 million in higher unabsorbed fixed costs due to increased economic downtime. Planned maintenance outage costs decreased by $55 million with no major planned outages in the quarter. Input and transportation costs improved by $27 million, driven by favorable fiber, chemical and transportation costs.

So let's move to Slide 7. This slide shows world graphic paper demand at just over 100 million tons. Here, you can see that uncoated freesheet is the largest and most resilient of all the graphic paper grades.

What separates uncoated freesheet? It's quite simple. Uncoated freesheet has the highest number of end-use applications and is used across all sectors of the economy. Uncoated freesheet is sustainable, affordable and functional. We believe paper will remain an effective vehicle for education, communication and entertainment for a long time.

Paper plays a critical role in education. Studies continue to show that students of all ages absorb more when reading on paper versus reading on digital screens. In fact, Sweden recently moved students off digital devices and back on to books and handwriting on paper. This is why total demand for uncoated freesheet exceeds the sum of all the other printing and writing grades combined.

Let's turn to Slide 8. We continue to believe that current uncoated freesheet consumption is better than the demand data suggests. The Pulp and Paper Products Council has published data that shows year-over-year changes in estimated consumption versus demand. On this slide, you can see North American comparisons for 2021, '22 and the first half of '23. The Pulp and Paper Products Council shares our view that coming out of the pandemic, customers were buying more paper than they were using and this year, they're using more paper than they are buying. The situations in Europe and Latin America are similar.

Moving to Slide 9. Current industry conditions are starting to show signs of improvement. US advertising is starting to pick back up and the US economy continues to show resilience. In uncoated freesheet with channel destocking nearly completed, we are starting to see increased order entry globally. Pulp inventory levels have improved significantly globally and prices are increasing globally.

Slide 10, please. We expect to deliver fourth quarter adjusted EBITDA of $90 million to $110 million. We project price and mix to decrease at a slower rate of $20 million to $25 million, primarily reflecting prior paper price decreases in Europe and unfavorable geographic mix in the Americas.

We expect volume to improve by $20 million to $25 million. This reflects seasonally stronger volume in Latin America, the completion of destocking in Europe and North America as well as a new business we picked up in North America.

Operations and other costs are projected to increase by $25 million to $30 million. This is primarily due to higher seasonal operating costs in Europe and North America. We expect input and transportation costs to increase by $5 million to $10 million due to seasonally higher energy. Planned maintenance outages are projected to increase by $25 million as we have outages in all our regions in this quarter.

We project adjusted operating earnings of $0.55 to $0.90 per share. This level of fourth quarter adjusted EBITDA may be a bit less than expected, and here's how I think about it. At current industry demand, price and input costs, the quarter would be $15 million to $25 million higher, adjusting for three factors. First, normalizing for planned maintenance outages. Second, adjusting for higher cold weather operating costs and third, we're taking some more downtime to reduce our inventories in the fourth quarter, especially in North America.

Let's go to Slide 11. We compete as a low-cost producer of commodity products sold in mature-demand cyclical markets. To become a leaner, stronger company, we initiated Project Horizon to streamline our organization and improve our cost structure. Before inflation, we were targeting a run rate savings of $110 million by the end of 2024. About two-thirds of the target will come from operational cost reductions in our mills and supply chains by improving efficiencies, accelerating our cost reduction capital spending pipeline and reducing direct variable and indirect costs. The remainder will come from selling and administrative cost reductions, including the elimination of about 150 salaried positions globally or nearly 7% of our salaried workforce.

Let's move to Slide 12 to talk about how we are allocating cash to create value. Year-to-date, through the third quarter, we have generated $190 million in free cash flow. We will continue to maintain a strong balance sheet, return substantial cash to shareholders and create value by reinvesting in our business.

Through the third quarter, year-to-date, we repaid $36 million of debt and in October, we repaid another $10 million. As of November 9th, we have returned $110 million in cash to shareholders and plan to return $125 million this year.

Remember, we also deposited $60 million in escrow in the third quarter so we can return more than $90 million. Our board of directors increased our

regular dividend by 20% and declared a $0.30 per share special dividend. We paid both totaling $25 million on October 17th.

The Board also authorized an incremental $150 million share repurchase program. At the end of the third quarter, the May 2022 and the September 2023 authorization collectively had $167 million remaining. We will continue to look for opportunities to repurchase shares at attractive prices.

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

J. Ribiéras

Thanks, John. I'm now on Slide 13. In October, we celebrated our two-year anniversary. Who would have thought that we would go through such extreme industry cycles in the first two years? Being a low-cost global producer with strong supply position and iconic brands has positioned us well. We have created significant shareholder value by managing what we can control.

First, we have allocated cash to improve our financial position by reducing debt by 35% of $530 million to strengthen our balance sheet. Second, we continue to deliver on our investment thesis. We have earned over $1.3 billion in adjusted EBITDA, which is a 19% margin. We also generated $568 million in free cash flow and returned $200 million to shareholders since our spinoff.

Third, we continue to reinvest in our business to strengthen our low-cost assets. We have invested $318 million and are accelerating investment in high-return capital projects.

I'll conclude my remarks on Slide 14. We are strengthening our ability to create shareholder value throughout the cycle. Sylvamo remains a cash flow story and we are now projecting more than $270 million in free cash flow this year. We are building on our strong supply position while we further develop our strategic channel partnerships. Our operational excellence remains key to our performance as we leverage our low-cost assets and Brazilian forestlands.

John walked you through our cost reduction initiative, Project Horizon, which will make us a leaner, stronger company. We understand our efforts to reduce our global salary positions may affect our colleagues whose position would be eliminated. We will help these employees by providing transition service and want to thank them for their service.

Financial discipline is very important to us. We will continue to leverage our strength to drive high returns on invested capital, generate free cash flow and use that cash to increase shareholders' value by maintaining a strong financial position, returning cash to shareholders and reinvesting in our business. We will create long-term value through our talented teams, iconic brands and low-cost mills in favorable locations. We're confident in our future and motivated by the opportunities that lie ahead.

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

H. Bjorkman — Thanks, Jean-Michel and thank you, John. Okay, Greg, we're ready to take questions.

Moderator — Your first question comes from the line of George Staphos from Bank of America.

G. Staphos — The first question I wanted to hit on is with Project Horizon. The deck speaks to about $22 million of run rate savings from the salaried reduction, if I'm reading it correctly, the footnote correctly. In total, what net benefit do you think you'll be able to get from the program in '24, recognizing, obviously, it affects a number of people who worked with the organization for a long time and it's bittersweet, but what do you think the net benefit to the P&L would be from this program in '24?

J. Sims — To answer your question, we're targeting $110 million run rate by the end of 2024 and we do have on the slide, we're estimating that inflation for 2024 is going to be approximately $50 million. So the net benefit, in total, will be $60 million once we get to the full run rate. In 2024, we're expecting a net benefit of about $10 million to $15 million.

G. Staphos — Second question, what we've been seeing in volumes, while maybe from an amplitude standpoint is larger and therefore, worse than expected, it's not unreasonable based on history, it's fairly consistent. We're seeing big drops in demand in very large economic downturns or deceleration. Whether or not we're in a recession, certainly from the companies that I look at over the last year or so, the volumes have been such where I think packaging and paper has been basically in a recession. What you normally then see though is not a real rebound in demand, rather the world learns to be more productive and you have a new demand level for uncoated freesheet.

What do you think in terms of where we are right now in terms of any further demand destruction that we may see or may not? Hopefully, it's resolved. If you had to estimate at this juncture, what do you think your shipments, your demand, will look like in '24 by market year-on-year if you can provide that?

J. Ribiéras I think, as you said, we've had in our cycle some more strong numbers, sometimes a decrease, due to economical factors, due to COVID, due to multiple factors. Even if you take '23 strong decrease, we are still in our trend back to 4% to 6% in the US downturn and back to 3% to 4% down in Europe.

I think we are on this trend and we're going to continue to be on this trend. What happens is when you have strong elements like inventory correction you've seen this year, you could kind of think is it much worse than this trend and numbers show it's not. '24, it's difficult to predict. What we do know in '24 is we do not expect to have the inventory correction again. So when you compare it to '23, it should probably look better, but on the trend, demand deep, I think there is no change. It's still a minus 5% globally.

[*Overlapping voices*]

G. Staphos Jean-Michel— Sorry, go ahead, John.

J. Sims I was just going to add one more comment to that this is— I think we agree with what you're saying and to the extent for North America and Europe. Latin America, though, demand is down, but most of that is all due to inventory corrections. So I just must focus that for one part of our market, we're not seeing that recessionary type decline that you referenced.

G. Staphos So should we expect on a year-on-year basis that demand should match consumption in '24 or would you expect some inventory rebuild such that you might actually see some year-on-year increases in percentages for the grades?

My last one, and I'll turn it over, can you talk about the— you indicated you had a new win in North America, if I heard you correctly, if you could talk to that? That would be great and I'll be back in queue.

J. Ribiéras Yes. So we do expect to be at least at level of consumption. I would say maybe some inventory correction would be an upside, but our expectation

is to be more at normal demand consumption with, as you mentioned, the upside.

If you remember, in North America, we mention it, I think it was last quarter or the one before, with the closing of the Canton mill, there was opportunity to take some new businesses for us in North America and we did. So that's what we mean by that.

Moderator — Your next question comes from the line of Matthew McKellar from RBC Capital Markets.

M. McKellar — Maybe just picking back up with Project Horizon. Is there any more color you can give on what kind of opportunities you're seeing to reduce costs in the manufacturing supply chain side, in particular, including if there are any specific mills or even geographies that you call out as presenting the best opportunities? Then is there a need to spend capital to achieve some of these savings?

J. Sims — Yes, Matt. First of all, some of it is realization of capital that we've already spent in terms of cost reduction. Then we also do have some cost reduction capital planned for next year that will yield some benefit. The other area is that we're just continuing to work on efficiencies around energy consumption, chemical consumptions and becoming more efficient in terms of our operations.

J. Ribiéras — I'll add to that. We have some form of a little bit of opportunities in supply chain, especially in North America. When we spin, we kept the network we had before mostly intact. We did not look at what was the opportunities to ameliorate, optimize that network. Now that we have two years of experience and understand better the market and where we do, we think we have opportunities to significantly improve our supply chain operation efficiency, especially in North America. That's probably where we have the biggest [indiscernible] supply chain. We now have good opportunities there too.

M. McKellar — Maybe next, it sounds like you're expecting channel inventory correction to be largely complete by year-end. Would that be the same or similar across geographies? Are there any areas where you call out as being a little bit different as you look from region to region? Any particular here, I'm thinking about Latin America, which I think you've said has kind of exhibited different demand trends and would be seasonally stronger in Q4?

J. Ribiéras — Yes. I think Latin America, the strongest we saw was not Brazil, other Latin America. I will say with the other pattern we have right now, we can say this is behind us. I would say both Europe and North America, especially in the last four weeks, when we see our order intake and what our customers say that give us a good indication that the inventory correction is done.

Moderator — Next, we'll go back to the line of George Staphos from Bank of America.

G. Staphos — So I want to come back, I think Matthew queued it up nicely on Project Horizon. So was this a program that you developed internally either from existing learnings you had within Sylvamo or the predecessor company or did you bring in somebody from outside the firm to sort of teach you whatever you're doing to get at these net savings over time?

Then again, we've got supply chain, we have efficiencies— that's all well and good and we wish you well in the program, but is there something sort of unique to this program relative to past cost reduction programs that you might have been associated with either at Sylvamo or prior companies that we should keep in mind and give us more or less optimism on its prospects?

J. Sims — Two things on that, George. First of all, we named it Project Horizon because this is a project that talks about the future for Sylvamo. So we knew coming out of the spin that we could operate more efficiently, leaner, more focused and the plan was to get there as soon as we got the spin behind us.

We did this internally. This is about focusing on our strategy and make sure that we have the organizations and the capabilities we need to execute going forward. So this is from an internal perspective. We did not go to outside resources for that.

The same is true for our operational side. Some of this has to do with us continuing to ramp up our investments that we've been doing and showing in terms of our facilities, both in the maintenance and the cost reduction capital. But it's also more of a concerted effort and focused on areas of opportunities we have to improve our operations.

We set a short time frame because we want to be able to execute this quickly and we wanted to be able to show that you ought to be able to see

it on the bottom line pretty quickly. Now, we talked about $10 million to $15 million in 2024 but this is going to be an exit rate. So you should be seeing it beginning first quarter of 2025.

J. Ribiéras — If I may, John, I would just add, just in supply chain, when I was talking about network optimization, we did get some specialist supply chain services to help us. We're continuing to have them helping us redesigning our network and thinking about it differently.

G. Staphos — Okay. But actually, I just want to make sure I understood. So the $10 million to $15 million, I took it as a net realized with the run rate being after inflation, then $60 million or so. Did I get that incorrectly and if I got it correctly, does that mean then there's another $30 million to $40 million benefit that you get in '25 based on the program?

J. Sims — That's right. The net benefit is $10 million to $15 million after inflation and the $60 million is net of inflation.

G. Staphos — On the ops efficiencies, I mean is it just purely you went machine by machine, boiler by boiler and just did indexing and yield analysis or was there something else related to the program? I'm sure it's much more, but was that the fundamental that you were employing there?

J. Sims — Yes. That's probably a good way to describe it. It was a bottoms-up work with an extensive, let's say, extensive feedback or information from everybody working in our facilities.

J. Ribiéras — Some of it is due also to our cost investment that John mentioned. We've invested in some equipment, in some mills, much better online data analytics to get the capacity now to much better understand clients and predicting them and act on them. So, some of the cost programs we've done with this automation, I won't call it AI, it's too much, but I would call it digital progress in the mills analytics is helping us also a lot.

J. Sims — George, let me add, these are structural changes. We're not trying to push off or avoid— when we're looking at $110 million, these are sustainable changes. So they do not include, for example, increased volume and absorbing unabsorbed fixed costs that we had this year versus because of the lack of order downtime we took because of the inventory correction. So that's not included in this $110 million.

G. Staphos — One last quick for me and then I'll turn it back and try to get back in queue. I remember a discussion about LatAm seeing some improvement in volumes with the textbook program. Did that materialize and how is the order book in LatAm going into '24?

J. Ribiéras — Yes, it did materialize mostly and order book is good. It's a seasonality also, which is always very good in the fourth quarter. So, fourth quarter in LatAm is the strongest one. First quarter the weakest one, but that's just a seasonal demand.

Moderator — Mr. Staphos, please continue with your questions.

G. Staphos — Last one for me. So share repurchase currently available authorization, did you say $160 million? Do you have an outlook on maintenance at this juncture, gentlemen, for '24?

J. Sims — Yes, we have— I think I believe $167 million left on our authorization. We have yet to— we're still developing the plan for 2024. We'll probably be sharing the maintenance outlook with you when we announce the fourth quarter.

G. Staphos — At this juncture, would you expect relatively flat or could it be lower or likely higher?

J. Sims — I would say, right now, relatively flat.

Moderator — At this time, there are no further questions. I'd now like to turn the call back to Hans Bjorkman.

H. Bjorkman — Thanks, Greg. Before I wrap up the call, Jean-Michel, any closing comments?

J. Ribiéras — First of all, thank you for joining our call. We remain a cash flow story. We're projecting more than $270 million in free cash flow this year and remain committed to returning $125 million to shareholders. We remain confident in our ability to generate strong EBITDA and free cash flows throughout the cycle.

We will exit this current industry down cycle as a leaner, stronger company. Allocate capital to increase shareowner value. We use cash to maintain a strong balance sheet, return the cash to shareholders and reinvest to strengthen our businesses.

We are confident in the future. So thank you, everybody.

H. Bjorkman — Thanks for joining our call today. We appreciate your interest in Sylvamo. We look forward to the discussions in the coming weeks and months ahead. Thank you so much.

Moderator — Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Teleconference. You may now disconnect.