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Earnings Call

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Call Participants

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Presentation

Operator

Good morning. Thank you for standing by. Welcome to Sylvamo's First Quarter 2025 Earnings Call. [Operator Instructions] As a reminder, your conference is being recorded. I'd now like to turn the call over to Hans Bjorkman, Vice President, Investor Relations. Sir, the floor is yours.

Hans Bjorkman
Vice President of Investor Relations

Thanks, Sarah. Good morning, and thank you for joining our first quarter 2025 earnings call. Our speakers this morning are Jean-Michel Ribiéras, Chairman and Chief Executive Officer; and John Sims, Senior Vice President and Chief Operating 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-U.S. GAAP financial information. Reconciliations of those figures to U.S. GAAP financial measures are available in the appendix. Our website also contains copies of the earnings release as well as today's presentation. With that, I'd like to turn the call over to Jean-Michel.

Jean-Michel Ribiéras
Chairman & CEO

Thanks, Hans. Good morning, and thank you for joining our call. I'll start on Slide 4, highlighting some news we announced a few weeks ago. After over 3 decades of working in the paper and packaging industry, I have decided to retire at the end of the year. Serving as the Chairman and CEO of Sylvamo for the past 4 years has been one of the greatest highlights of my career.

I'm pleased that John Sims will become the next CEO of Sylvamo. John was elected Chief Operating Officer effective May 1 and will lead our commercial and operational functions. Following my retirement, John will assume the role of the CEO on January 1, 2026. As you know, John has served as the CFO of Sylvamo since the spin-off and has been instrumental in our work to build the world's paper company and drive our company's strong performance.

Don Devlin was named Senior Vice President and Chief Financial Officer, effective May 1, and is with us here for today's call. You'll hear more from Don in future earnings calls. He joins us from International Paper after 27 years with the company. Don has extensive international leadership experience with a track record of building teams, developing strategic plans and delivering results in diverse and challenging environments.

He served in a variety of leadership roles, including Finance Director for European Papers, Chairman and CEO of IP's uncoated freesheet business in India and, most recently, Vice President, Finance and Strategy for IP, Industrial Packaging. I'm excited to have both John and Don in their new leadership roles to drive the company forward for future success.

Slide 5 shows our first quarter highlights. First, we successfully completed a heavy planned maintenance outage quarter in Europe and North America. Also, these outages were executed well, we ran into some separate non-outage-related operational challenges, primarily in North America.

John will talk more about the financial impact in a few slides. We also began implementing the previously communicated uncoated freesheet price increases to customers in Brazil and North America. Lastly, we returned nearly $40 million in cash to shareowners. We distributed $18 million via the first quarter dividend, and as of today, we have repurchased $20 million in shares this year.

Let's move to the next slide. Slide 6 shows our first quarter key financial metrics. We earned adjusted EBITDA of $90 million with a margin of 11%. In addition to having almost $30 million of planned maintenance outages costs, the first quarter is our weakest demand quarter every year in Latin America. We generated adjusted operating earnings of $0.68 per share. As expected, free cash flow was lower than

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the fourth quarter due to the timing of year-end payments, onetime cash benefit in the fourth quarter from the monetization of working capital related to the closure of IP Georgetown mill and the payment of annual incentive compensation in the first quarter.

Keep in mind that our free cash flow is heavily weighted to the second half of the year. The last 2 years, we generated almost 90% of our free cash flow in the second half. Now John will review our performance in more detail.

John Sims
Senior VP & COO

Thank you, Jean-Michel, and good morning, everyone. I also want to thank Don, who's sitting right next to me. We're in a transition of moving the CFO role quickly over to him and look forward to working in the future with Don. Slide 7 contains our first quarter earnings bridge versus the fourth quarter. The $90 million of adjusted EBITDA was in line with our outlook of $85 million to $105 million. As Jean-Michel mentioned, we had some operational issues in North America, which impacted us by roughly $10 million. Half from lower sales volume and half from operations and other costs. This also includes less volume from IP's Riverdale mill than was planned.

Price and mix was unfavorable by $10 million, driven by the expected seasonally unfavorable mix in Latin America, lower pulp prices and paper price decreases in Europe and in our export regions. These were partially offset by paper price increase realizations in North America and Brazil.

Volume decreased by $30 million, driven by the seasonally weakest demand quarter in Latin America, lower North America volume from IP's Georgetown mill exit and the operational challenges in North America. Operations and other costs were unfavorable by $12 million, primarily driven by unfavorable FX plus the North America operational challenges we mentioned earlier.

Planned maintenance outage costs increased by $9 million as we executed major outages at our Saillat and Eastover mills. Input and transportation costs increased by $6 million, primarily driven by seasonally higher energy prices and the longer-than-expected extreme cold weather across the United States in the first quarter.

Let's move to Slide 8. We expect to deliver second quarter adjusted EBITDA of $75 million to $95 million. We project price and mix to be favorable by $5 million to $10 million. This is primarily due to favorable mix in Latin America and North America. We expect volume to be stable. Volume would have been sequentially higher as we have the orders, but anticipate being unable to fill them all during the quarter. This is due to low inventory levels in North America as a result of our operational issues. In addition, we expect to get less volume from IP's Riverdale mill in the quarter. Therefore, some of our orders may get pushed into the third quarter. Operations and other costs are projected to be favorable by $10 million to $15 million due to better operations and seasonally lower operating costs in North America and Europe.

We expect input and transportation costs to improve by $5 million to $10 million, primarily due to energy. Planned maintenance outages are projected to increase by $36 million as we execute the heaviest outage quarter of the year across all 3 regions.

Let's go to Slide 9. This slide illustrates the planned maintenance outage schedule for the full year. We spent $27 million in the first quarter and expect to spend $63 million in the second quarter. By midyear, we'll have spent over 80% of the total annual planned maintenance outage cost. Unlike last year, we had no major planned maintenance outages in Europe. This year, we have outages in both mills in the first half of the year.

Let's move to Slide 10. I'll now shift to talk about overall uncoated freesheet conditions across our regions. In Europe, demand is down 7% year-over-year through the first quarter, while imports appear stable. As a reminder, industry supply was reduced by 7% after 2 uncoated freesheet machines closed late last year.

In Latin America, demand is up 3% year-over-year through the first quarter with most of the increase in Brazil, largely due to strong demand in the publishing segment. In North America, apparent demand is

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down about 1% year-over-year through the first quarter, driven by higher imports. This brings imports to almost 15% of overall North America supply, which is on the higher end of historical ranges.

We still believe that real demand will be down about 3% to 4% this year. As another reminder, domestic industry supply was reduced by 10% after a few machines, including IP's Georgetown mill closed in the second half of last year. We have strong order books across our regions and all of our mills are running full.

We have more demand than we can supply right now due to our commercial team's success combined with the supply issues we've been dealing with in North America. Consequently, going forward, we're going to take advantage of our global footprint to improve our mix and serve our customers in North America. As a result, we expect to have less exports to noncore markets.

We are not going to give a full year guidance with all the uncertainty. However, we do expect a significantly better adjusted EBITDA performance in the second half. This is due to lower planned maintenance outage expenses, improved commercial results and better operations.

Tariff uncertainty aside, we expect 2025 Latin America and North America combined full year adjusted EBITDA to be slightly better than 2024. Europe's 2025 performance will be significantly worse than 2024 due to the $39 million of planned maintenance outage this year and worse market conditions as we're seeing signs of the pulp market weakening.

Let's go to Slide 11. I want to take some time to discuss our European business. As we look back on the Nymolla mill acquisition, the mill generated about $70 million of free cash flow before overhead allocations in its first 2 years as part of Sylvamo. We exceeded over $20 million run rate synergy target by $5 million. The pulp mill modernization project exceeded its projected benefits as well.

Unfortunately, compared to 2022, last year, the mill experienced a $41 million increase in wood costs and a cumulative $63 million over the last 2 years. This increase in wood cost is due to the war, with Russia and Belarus stopping the export of wood fiber, reducing overall wood supply to the region.

Additionally, high demand from the energy sector in the Nordics increased overall wood demand. Stepping back and looking at our entire European business, our earnings performance is below our expectations. In addition to Nymolla’s escalating wood costs, high input costs and challenging industry conditions have impacted demand and pricing.

We're not satisfied with our performance and have installed a new Senior Vice President and General Manager effective May 1 to lead our talented team, further develop our strong customer relationships and improve our performance. We are focusing on reducing costs across the region. We'll be improving our product mix by upgrading some capabilities at Saillat. We are working to reduce wood costs and are targeting best-in-class efficiency at the Nymolla mill. I'll now turn the call back over to Jean-Michel.

Jean-Michel Ribiéras
Chairman & CEO

Thanks, John. I'm now on Slide 12. We understand that one of the main risks in today's environment is a global economic slowdown due to the current tariff situation, which could impact uncoated freesheet demand. Some shift in uncoated freesheet and pulp trade flows are already starting to materialize.

We also anticipate higher risk of inflation on our raw material, transportation and capital spending. While these will present possible challenges, these risks currently appear manageable. Our global sourcing teams are already working on mitigation strategies as well as alternative sourcing options for some raw materials plus optimizing modes of transportation.

Regarding our major capital spending plans for the year, the business cases for these projects include the possibility of higher costs, which are not expected to be material at this point.

Let's move to Slide 13. Although there is a lot of uncertainty around the tariffs and the impact on the economy, we are well positioned to manage through this environment. Over 90% of our raw materials are

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sourced locally with very little coming from China. Regarding our shipments, the majority stay within their respective region.

In Europe and North America, more than 90% of our shipment stays within their respective region. Latin America, 80% of our shipments remain in the region. Although we export about 20% of our products from Latin America, we are well-positioned as our Brazilian mills are some of the world's most competitive and low-cost uncoated freesheet facilities.

Lastly, I want to remind everyone that even though imports tend to rise and fall for a variety of reasons, imports historically represent less than 15% of uncoated freesheet industry supply in each of our 3 regions. Let's move to Slide 14. I will take this opportunity to remind everyone of all the work we did to deleverage our balance sheet over the past 3 years.

After launching, with close to $1.4 million net debt and a leverage ratio of 2.6x, we have reduced our debt by about half, and our leverage ratio is now 1.1x. We have no major maturities until 2027. Plus, we have availability on our revolver of $400 million.

Our strong balance sheet, available cash on hand plus the availability on our revolver provides us with the ability to take care of our customers, run our business and invest in our future. Our capital allocation strategy is to maintain a strong financial position. We invest in our business to improve our competitive advantages and return cash to shareowners.

Our position of financial strength allows us to navigate this uncertain environment without changing our thoughtful long-term approach to capital allocation. It allows us to serve customers while navigating economic headwinds. It allow -- also enables us to invest in our business even during times of uncertainty, and it preserves the flexibility to return cash to shareowners. We will continue to evaluate opportunities to repurchase shares at attractive price with $62 million available on our current share repurchase authorization.

I'll conclude my remarks on Slide 16. All of the work we have done to strengthen our financial position in the past few years is providing us with flexibility. Our financial strength and regional businesses have us well positioned to navigate the current tariff uncertainty.

We are reinvesting in our business through a great pipeline of high return capital projects, which will enable us to grow our earnings and cash flow in the coming years. Sylvamo is creating shareowner value through strong cash generation and disciplined capital allocation. And we are in the process of executing a seamless CEO and CFO succession plan as we prepare for my retirement at the end of the year. We are confident in our future and motivated by the opportunities that lie ahead. With that, I'll turn the call back to Hans.

Hans Bjorkman
Vice President of Investor Relations
Thanks, Jean-Michel, and thank you, John. Okay, Sarah, we're ready to take questions.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from George Staphos with Bank of America.

George Staphos
BofA Securities, Research Division

Jean-Michel, John and Don, congratulations. Yes, and all the best in the next chapters. And Jean-Michel, thanks for all the help, obviously, and you're not retiring yet, but thanks for all the help with our research for everybody on this call since you've been public. I guess the question I had, I didn't really follow what the operational issues were. If you could give us a bit more detail in terms of what happened.

And then I know you're not guiding on third quarter, but you mentioned you won't be in a position to recover some of the orders in 2Q. It sounds like some of that might be pushed into 3Q. Is there a way for you to size what that benefit might be as you recapture some of those orders particularly as regards seasonality, Brazil typically picks up to the third quarter as well.

John Sims
Senior VP & COO

Yes, George, and thank you. The issues we had with, actually there is multiple reliability issues, both at our Ticonderoga mill and our Eastover mill, and majority of that is behind us. We do have 1 issue that's intermittent and so it makes it hard to troubleshoot on 1 paper machine at Eastover. That actually is in our outlook in the second quarter. And we think we're going to have that resolved. We should have that resolved by this quarter.

The other thing I'll make a point about is the impact of the Riverdale volume because that doesn't show up in the operations, but it's certainly showing up in the volume. I mean, in fact, they've obviously been having some runability issues themselves, and it really started in the fourth quarter, translated into when it continued into the first and it's also continuing into the second quarter. That in itself is in about almost 30% of what they should be supplying us we haven't been getting.

So you can see it actually kind of built up. In the first quarter, we said the impact of all these issues was roughly about $10 million. I would say that the Riverdale conditions also are continuing into the second quarter. And some of that is in our outlook. But if you're trying to get to a number of what would the improvement be in the third quarter, something a little bit less than $10 million. George, that will show up in both ops and volume.

George Staphos
BofA Securities, Research Division

Okay. And the related question that I had there was just in general, can you remind us then seasonally what goes well, third quarter versus 2Q. As we recall, LATAM volumes pick up. Is there a way to size that for us? I know you're not guiding on 3Q, but as we're trying to build out our bridges or refine them.

John Sims
Senior VP & COO

Yes, George, the best thing I would do is look at what we've done historically. And we break it down by region, and we don't see much difference in that.

Operator

[Operator Instructions] Your next question comes from Matthew McKellar of RBC Capital Markets.

Matthew McKellar
RBC Capital Markets, Research Division

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Jean-Michel, congratulations on your upcoming retirement and congratulations also to John and Don for their appointments.

John Sims
Senior VP & COO

Thanks, Matt.

Jean-Michel Ribiéras
Chairman & CEO

Thank you, Matt.

Matthew McKellar
RBC Capital Markets, Research Division

I'd like to start by asking just around the changes at Saillat and Nymolla. Could you tell us just a bit more about what the upgrades to your capabilities at Saillat entail and the market opportunity that's leading you to reposition your product mix, maybe that's entirely serving demand in North America or if there's anything else going on there?

And then at Nymolla, what levers do you have to reduce your wood costs and improve efficiency? And as we kind of think about putting this all together how would you have us think about how financially meaningful these changes could be and over what time line?

Jean-Michel Ribiéras
Chairman & CEO

Matt, so in Saillat to answer your first question, we've invested on the new and revised winder. This is going giving us the capability to sell rolls in Saillat in interesting segments, more specialty rolls segments in Europe. We are quite a different position. I don't know if you got that in mind. In Nymolla, we sell 50% of our business in rolls, and we are very successful, and 50% in cutsize.

In Saillat today, we sell 90% in cutsize and only roughly 10% of rolls. This is going to give us a capability to sell much more rolls and enter into the specialty segment. So I hope I'm answering your first question. On Europe, in general, in Nymolla, we have great opportunities in operations.

We don't run Nymolla mill at the same bench, OEE, or if you want, cost performance that we run the other mills. We've done some investments in capital, but also in people. And we're continuing to do that. And that gives you quite a lot of cost opportunities to improve Nymolla. And in Saillat, it's mostly mix and also looking at our fixed costs mostly.

John Sims
Senior VP & COO

Yes. And I'll just add to that, Matthew, you asked about the leverage that we have in reducing the wood costs. So when we purchased the Nymolla mill, it was an agreement that we would continue to source the wood from a company that's owned by Stora. One of the options we have is to go directly right to the land owners, which cuts out some of the costs around that.

The other opportunity we have is actually importing in the lower cost wood. And then there's operational improvements where we increased the yield and reduce the consumption of wood going forward. Those are some of the levers that we're pulling. In terms of the levers, how much we're targeting for is we're looking at and targeting at least a 10% reduction.

Jean-Michel Ribiéras
Chairman & CEO

I think, Matt, you asked also a question on Europe profitability in general. And as we mentioned, we're clearly not satisfied. We are clearly expecting a significant improvement in 2026 and now building programs to be back to cost of capital in 2027. So that's the plan we have as of today.

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Matthew McKellar
RBC Capital Markets, Research Division

That's helpful. Last one for me. There was a comment that some shifts in uncoated freesheet and pulp trade flows are already starting to materialize. Could you just elaborate on what you're seeing and kind of how that's affecting you by markets?

John Sims
Senior VP & COO

Yes, I'll take that one. The -- this is -- what makes it difficult around trying to assess the impact of tariffs because some of it is probably the most impactful to us could potentially be the secondary effects of the negotiations that are ongoing and give you some examples that we've seen -- like we talked about increased imports into the U.S. Some of that, we believe, could be due to prebuying or getting ahead of the tariffs in North America as an example.

We also have seen in Europe, just reported this month by Fastmarkets so we see that pulp prices decreased almost EUR 40 a tonne on BEK coming out of Brazil, and that's really driven because of the significant decrease in pulp demand in China. And then that's coming over to Europe. So that's some of the impacts that we're seeing as a result of this tariff situation here in the U.S.

Operator

Your next question comes from Daniel Harriman with Sidoti.

Daniel Harriman
Sidoti & Company, LLC

I echo the congratulations given by Matt and George. I had a question about your capital spending for the balance of the year. If we look at what you spent in the first quarter, that run rate won't get you to your guidance of $220 million to $240 million for the year. So I'm just curious how we should think about that over the last 3 quarters, understanding that you don't guide to cash flow, but just trying to get a sense of what we should be looking for the last 9 months?

John Sims
Senior VP & COO

Daniel, we do -- we haven't changed the revision on full year capital. And whereas most of our outages in the first half of the year, the second half will be somewhat influenced by the large capital projects we have associated with Eastover both the speed up and the new sheeter. So the full year guidance will still be $220 million to $240 million.

Jean-Michel Ribiéras
Chairman & CEO

Daniel, Jean-Michel. I would just maybe add something. I think when you look at free cash flow, and we've had, I would call it, the issue last year and the one before, we are very strong in the second half of the year cash flow. Our 2 last years were 90% of our cash flow the last 2 quarters of the year. We expect about the same this year.

So I know sometimes in your modeling, it's a little bit difficult to do, but this is what we've seen historically speaking, you've got it in our appendix slides, and we expect about the same thing this year. So a very significant increase in cash flow for the second half of the year.

Operator

The next question is a follow-up from George Staphos with Bank of America.

George Staphos
BofA Securities, Research Division

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John, Jean-Michel, Don you mentioned on one of the slides that you think the North American demand is down 1%, but that is I guess, if you will, higher than underlying demand because it reflects imports. So I guess two parts, imports, you think are going into inventory right now and prebuying, putting that comment together with another one you just made, that will be, I guess, something that has to be absorbed and be an overhang for a little while?

And then I think you said, overall, you think demand is 3% to 4% on an underlying basis. Is that what your expectation will be for industry shipments over the rest of the year? And how would those figures map? When do you think they should ultimately align the demand versus shipments in 3Q, 4Q and the like? I'll turn it over there.

John Sims
Senior VP & COO

Yes. So the comment there was the apparent demand and we called out the word apparent because it's calculated when you looked at domestic shipments plus imports/exports. And that's being reported is down negative 1%, but we believe that underlying demand is really down 3% to 4% to the point you just -- you made, George, because you count the imports as soon as they hit the port.

And typically, that -- and there was a large surge of imports, particularly in January in the first quarter, and so we think that, that has made demand look stronger than it actually is.

But yes, it's in inventory, and that will be probably consumed going forward. If you look at the numbers, it's only -- I think it's reported, but February numbers, import numbers were a little bit, I guess, not low, but they were lower than January. So we think some of this is due to just the timing of the imports coming in like the first quarter demand maybe looks stronger than what we actually see.

George Staphos
BofA Securities, Research Division

And when do you think -- go ahead, John, I'm sorry.

Jean-Michel Ribiéras
Chairman & CEO

No, that was Jean-Michel, sorry. I just wanted to integrate when we look in terms of demand, especially for Sylvamo I'm taking our order flow, not only because we've had some issues in the mills, but in general, the demand we're seeing with our customers is strong. We are full.

John Sims
Senior VP & COO

Yes, I think you were asking about the costing shipment, George. So my comment on this there was some capacity that closed last year. So domestic -- just that in itself would lower domestic shipments. And then there was a mill that was recently announced that may be shutting down at the end of this year. But -- so we would expect domestic shipments to be down just because of the capacity closures, but as Jean-Michel said, operating rates are in the mid -- low 90s domestically.

George Staphos
BofA Securities, Research Division

Very good. Another question I had, and I'll turn it over, actually. So the operational issues, thank you for going through those earlier, do they affect at all the progress on Eastover with your bigger projects? And if you can just give us a quick update on how that's going.

John Sims
Senior VP & COO

No, they do not. Just to be frank with you. They did not impact that. And actually, those projects are going well from a timing perspective. So we're still seeing startup next year on that. It's on schedule, on time. No impact there.

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Operator

[Operator Instructions] I'll now turn the call back over to Hans Bjorkman for closing comments.

Hans Bjorkman
Vice President of Investor Relations

All right. Thank you, everybody, for joining our call today. We appreciate your interest in Sylvamo, and we look forward to continued conversations in the coming weeks. Thank you very much.

Jean-Michel Ribiéras
Chairman & CEO

Thank you, everybody.

Operator
Once again, we would like to thank you for participating in Sylvamo's First Quarter 2025 Earnings Call. You may now disconnect.

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