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Earnings Call

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Call Participants

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Jean-Michel Ribiéras
Chairman & CEO

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Matthew McKellar
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Presentation

Operator

Good morning, and thank you for standing by. Welcome to Sylvamo's Second 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

Thank you, Regina. Good morning, and thank you for joining our second quarter 2025 earnings call. Our speakers this morning are Jean-Michel Ribiéras, Chairman and Chief Executive Officer; John Sims, Senior Vice President, Chief Operating Officer; and Don Devlin, 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-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 with our second quarter highlights. Our teams are committed to the success of our customers and are partnering with them to be the supplier of choice every day. Our operational performance improved during the second quarter and the challenges we ran in the first quarter are now largely behind us. We completed the largest planned maintenance outage quarter we've had in over 5 years. Lastly, we returned nearly $40 million in cash to shareowners. We distributed $18 million via the second quarter dividend, and we repurchased $20 million in shares in the quarter.

Let's move to the next slide. Slide 5 shows our second quarter key financial metrics. We earned adjusted EBITDA of $82 million with a margin of 10%, in line with our expectations. This reflects having almost $70 million of planned maintenance outages in the quarter, which is the largest in recent history. We now have almost 85% of our planned maintenance outage for the year behind us. We generated adjusted operating earnings of $0.37 per share. Free cash flow was negative $2 million. The variance to the second quarter last year is due to lower adjusted EBITDA and slightly higher capital spending. Keep in mind that our free cash flow is heavily weighted to the second half of the year. In the last 2 years, we generated almost 90% of free cash flow in the second half.

Now I will turn it over to Don to review our performance in more detail.

Don Devlin
Chief Financial Officer

Thank you, Jean-Michel, and good morning, everyone. Slide 6 contains our second quarter earnings bridge versus the first quarter. The $82 million of adjusted EBITDA was in line with our outlook of $75 million to $95 million. Excluding the $13 million in FX headwinds in the quarter, we would have been at the high end of our outlook. Price and mix was favorable by $12 million, driven by better mix in North America and Latin America, with lower export sales from both regions. Volume decreased by $9 million, mostly in North America. About half is due to less volume from IP's Riverdale mill than planned. Over the last 3 quarters, they've only produced about 80% of their 27,000 ton per month plan, and we expected that to continue

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into the third quarter. The other half was partially due to our own operational challenges we experienced in the second quarter.

Operations and other costs were favorable by $23 million, driven by $18 million in improved operational performance in North America and Europe. We continue to make progress in resolving the operational issues experienced in the first and second quarters.

Other costs were also favorable by $18 million, primarily due to green energy credits in Europe, and lower overhead costs. This more than offset the unfavorable impact of $13 million from FX.

Planned maintenance outage costs increased by $39 million, largely as expected as we conducted complex outages in 5 of our mills. Input and transportation costs were favorable by $5 million primarily due to energy in North America.

Let's move to Slide 7. Looking at industry conditions for the first half of 2025 versus the first half of 2024. In Europe, demand remained sluggish and is down 8% year-over-year. Industry capacity was reduced by 7% after two uncoated freesheet machines closed late last year. Paper prices stabilized in the second quarter but are under pressure entering the seasonally slower third quarter. Pulp prices in Europe significantly decreased in the first half of this year contributing to uncoated freesheet pricing pressure.

In Latin America, demand is down 2% year-over-year with demand down 6% in other Latin American countries, However, Brazil is up 6% due to strong publishing demand.

Industry capacity across the region remains stable. In North America, reported apparent demand is stable year-over-year, driven by higher imports, which were up nearly 40%. Much of this increase in imports is in converting and printing rolls. We believe that real demand will be down 3% to 4% this year. Industry supply was reduced by 10% after a few machines, including IP's Georgetown mill, closed in the second half of last year. In addition, Pixelle announced they will close their Chillicothe, Ohio mill in August. This will further reduce uncoated freesheet capacity in North America by approximately 6%.

Let's go to Slide 8. We continue to monitor the U.S. tariff situation and the potential challenges and opportunities that may unfold. In the first half of the year, we saw some shifts in uncoated freesheet and trade flows. This is one of the main reasons why imports into the U.S. were up almost 40% through the first half. We're also keeping an eye on several cross-regional themes, for example, currency fluctuations with the U.S. dollar devaluation against many currencies. Regarding our major capital spending plans for the year, the business cases for these projects included the possibility of higher tariff costs, which are not expected to be material at this point. We're staying close to our customers to understand their needs and opportunities to help them be successful, and we are focused on what we can control, improving productivity, reliability and leveraging our cost initiatives.

Let's move to Slide 9. Looking ahead, we expect to deliver third quarter adjusted EBITDA of $145 million to $165 million. We project price and mix to be unfavorable by $15 million to $20 million, this is primarily due to paper and pulp prices in Europe. We expect volume to be favorable by $15 million to $20 million. This is primarily due to stronger seasonality in both Latin America and North America.

Operations and other costs are projected to be favorable, up to $5 million due to improved operational performance. We expect input and transportation costs to be stable. Planned maintenance outages will improve by $66 million as we have no outages planned in the quarter. We expect a significantly better adjusted EBITDA performance in the second half. This is due to much lower planned maintenance outage expenses, improving volumes and better operations.

Now I'll turn it over to John to talk about our capital allocation plans.

John Sims
Senior VP & COO

Thank you, Don, and good morning, everyone. I'll pick up on Slide 10. Our long-term capital allocation strategy drives shareowner value. We are focused on maintaining a strong financial position, reinvesting in our business, and returning cash to shareowners. This allows us to stay focused on our customers,

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helping them win through commercial excellence efforts. It enables reinvesting in our business, enhancing our reliability, productivity and improving our service through operational excellence initiatives. And our healthy financial position preserves the flexibility to return cash to shareowners. We'll continue to evaluate opportunities to repurchase shares at attractive prices with the $42 million available on our current share repurchase authorization.

Let's move to Slide 11. This slide shows how the deleveraging of our balance sheet has enhanced our financial position. We have reduced our debt by about half, including more than $150 million last year, which we did in anticipation of the potential uncertainties in 2025. Our net debt-to-adjusted EBITDA now stands at 1.3x. We have no major maturities due until 2027, plus, we have almost $400 million available on our revolver. Our strong balance sheet and available cash on hand provides us with the ability to focus on our customers, run our business and invest in our future throughout the cycle.

Let's go to Slide 12. Our teams continue to develop our high-return project pipeline with returns greater than 20%. We're investing in high-return projects to generate earnings and cash flow. We want to take this opportunity to highlight our 2026 and 2027 capital spending outlook. The purple shaded bars on this chart show our high-return investments. The light purple is for our Eastover investments and the dark purple is for all other high-return projects.

As disclosed on our fourth quarter 2024 earnings call back in February, we are investing $145 million in strategic projects at our flagship mill in Eastover, South Carolina. These investments will be spent from 2025 through 2027 with the majority of spending taking place next year. Overall capital spending is increasing in 2026, but then dropping back down to prior levels in 2027. This outlook should provide you with a good sense of our capital spending for the next few years, and we will continue to update you as we refine our plan.

Let's go to Slide 13. We feel the importance of the strategic investments at our Eastover mill warrants a quick refresh of our exciting plans. 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 are investing to optimize one of our two paper machines. The enhancements will allow us to reduce costs while improving our product mix across both paper machines. This investment should result in an incremental 60,000 tons of uncoated freesheet capacity. Second, we are replacing existing cut size sheeter with a brand-new state-of-the-art sheeter. This will lower our sheeting cost up to 15%, reduce waste by maximizing paper machine trim while providing incremental cutsize capacity. This sheeter will allow us to provide improved reliability and additional flexibility to better service our customers. Detailed engineering work continues and many of the orders for the parts and the equipment have already been placed. All plans are on track. Once completed, these combined investments should create incremental adjusted EBITDA of more than $50 million per year, resulting in additional cash flows and the internal rate of return of greater than 30%.

Lastly, we are partnering with The Price Companies, an industry leader in woodyard operations to modernize our woodyard and improve our efficiency. This will result in more efficient, reliable and cost-effective wood processing operations and allow us to avoid about $75 million in capital over the next five years. This woodyard modernization project is progressing as planned and remains on schedule to begin the startup in early 2026 and will be completed by the end of 2026.

Let's go to Slide 14. Our strategy is to be singularly focused on uncoated freesheet paper because we believe uncoated freesheet will be needed for a long, long time. Uncoated freesheet remains the largest and most resilient segment in the graphic paper space, and we view uncoated freesheet industry landscape as an opportunity. We're investing to strengthen our competitive advantages 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 of uncoated freesheet and reinforcing our position as supplier of choice for our customers. We will leverage our strength through our talented teams, iconic brands, strategic channel partnerships and low-cost mills to drive high returns on invested capital.

I'll now turn it back over to Jean-Michel.

Jean-Michel Ribiéras

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Chairman & CEO

Thanks, John. I'll conclude my remarks on Slide 15. We will create shareowner value by partnering with customers, so we remain the supplier of choice, maintaining a strong financial position to provide flexibility and reinvesting in our business through a great pipeline of high-return capital projects, enabling us to grow our earnings and cash flow. Sylvamo is creating shareowner value through strong cash generation and disciplined capital allocation, including share repurchases at prices well below our intrinsic value. And we are progressing well with our CEO and CFO transitions with John and Don 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
Thank you, Jean-Michel. John and Don. Okay. Regina, we're ready to take questions.

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Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of George Staphos with Bank of America.

George Staphos
BofA Securities, Research Division

I guess question I had for you, can you talk a little bit about what the outlook is for South America in the third quarter, to the extent that you can talk about EBITDA and how things are trending, that would be helpful.

And the second question would be, I remember from last quarter, I seem to remember that you were expecting North and South America on a combined basis to be up in EBITDA versus '24. Is that still the outlook and what are the puts and takes there?

John Sims
Senior VP & COO

George. So for our outlook for third quarter on Lat Am, we're expecting that you'll see continued improvement. First of all, we have seasonally increasing shipments and we've seen that typically, and we expect that again to occur this year, and you'll see that in the third quarter. Second, of course, we don't have any outages. We had two significant major outages in the second quarter down in Latin America. And so that is behind us. Our shipments were slightly lower than what we expected in the second quarter because we were slow to come out in both of those outages that cost us about 10,000 tons, but that -- of course, that's behind us, we'll be moving forward with that.

The second question you had was around the combined earnings. And in general, it is -- we don't give a full year outlook, as you know. And these current market conditions with the tariff provides a lot of uncertainty. But right now, we believe that the combined earnings of both North America and Latin America could be slightly less than what they were last year. And this is mostly due to kind of a change in position because of some of the weakness that we've seen in other Latin American markets pricing, and that's really driven by the impact of the tariffs and increased imports into those markets and also weaker demand. So in particular, in some of our Latin American markets, as we talked about, other than Brazil, Brazil is up 6%. Demand is strong there. And the other Latin American market demand generally is down 6%, and that's mostly driven by really Mexico. Now we don't ship into Mexico because of the tariffs that they implemented against Brazil there, but it does have a knock-on impact to the other regions.

Operator

Our next question will come from the line of Daniel Harriman with Sidoti.

Daniel Harriman
Sidoti & Company, LLC

First, I just wanted to start with Europe. And in the last quarter, you spent quite a bit of time talking about some changes that were made there. Obviously, the region continues to suffer from soft demand and lower pulp prices. And I'm just wondering if you could update us on what needs to happen either commercially or operationally to kind of stabilize performance there heading into 2026?

John Sims
Senior VP & COO

Yes, Daniel, Europe is difficult market conditions. This is also driven a lot by the tariff impact, particularly the impact it's had on market pulp, the weak demand in China, as you know market pulp prices were going up in the first quarter, but then significantly decreased in the second quarter, and pulp pricing is a driver of uncoated freesheet prices in Europe because of the level of nonintegrated capacity that is there. So we're seeing weakness in both pulp and uncoated freesheet pricing in there. Certainly,

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we need the market conditions to improve with pulp going up would be part of stabilization for the pricing there. So what we're really focused on, we talked about, it is the factor that we can control, and that's improving our competitive cost position. So we're focused on in Saillat around mix improvement as well as fixed cost reduction, in our Nymolla mill is reducing wood cost and improving our operations there. Those are the things that we're focused on. We've got -- we believe, the right leader driving that. We've got talented teams that are focused on that, and that's what the team is working on.

Operator

Our next question comes from the line of Matthew McKellar with RBC Capital Markets.

Matthew McKellar
RBC Capital Markets, Research Division

You mentioned shifting trade flows in uncoated freesheet through the first half of the year. Can you maybe just give us a sense of what the latest is that you're seeing on that front and how trends through the past couple of months into August have looked in particular. What are you seeing by market?

Don Devlin
Chief Financial Officer

Yes, Matthew. So relative to the first half of this year, we've seen a significant increase in trade -- rolls mainly coming into North America. And we believe it's in advance of the tariff uncertainties. And so it's had an impact in creating -- making more supply available in North America, primarily rolls.

Matthew McKellar
RBC Capital Markets, Research Division

Okay. And are you seeing any, I guess, changes in trends in Europe at this point?

Jean-Michel Ribiéras
Chairman & CEO

We've seen some pressure also from importers trying to get into the European market. Where we see it is some which are anticipated to have new access to U.S. or difficult access with tariffs trying to go to OLA. John was mentioning to you, prices in OLA were under pressure, and partially is because of some countries trying to import at very low prices to OLA and we didn't have that before. So OLA is other Latin America to be sure, what I mean by OLA. So we've seen it, as we said, in North America, especially in the first half, and we're seeing it a lot in OLA and Middle East. So some of the traditional people who used to sell to the U.S. will today try to find other avenues. And this is where we go with the flows impact.

Matthew McKellar
RBC Capital Markets, Research Division

Okay. Next for you, zooming out a bit here. What is your outlook for how uncoated freesheet demand in Latin America evolves over the next couple of years?

John Sims
Senior VP & COO

We think that Latin America will continue to be maybe flat or slightly down. I think what we're seeing today -- if you look at it, Brazil is up 6%. So that's in -- Brazil demand year-to-date is up 6%. It's other Latin America markets that are down. And that's really, as I said earlier, is being driven by Mexico, and that's being driven mostly, we think, because of the tariff uncertainty that's occurring that's driving through the economy in Mexico. We also see it in a couple of the other countries, in Brazil. But in general, we believe -- I'm sorry, not in Brazil, but in other Latin American market. So in general, we believe the long-term trend will be flat to slightly down in the whole Latin American market.

Matthew McKellar
RBC Capital Markets, Research Division

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And if I could just sneak one last one in here. I recognize that Eastover spending will be ramping into '26. But how do you think about the opportunity to lead into share repurchases with where the share price is at particularly with the balance sheet in good shape in the second half of '25 likely to be stronger from a free cash perspective.

John Sims
Senior VP & COO

Yes. I think it's clear, we have a pretty strong balance sheet. So we have a lot of capacity to take advantage and opportunistically buy back our shares when they are significantly undervalued. We have a little bit over $40 million still authorized from the Board of Directors. And so we think we have plenty of capacity to take advantage of repurchasing our shares.

Operator

[Operator Instructions] And our next question is a follow-up from the line of George Staphos with Bank of America.

George Staphos
BofA Securities, Research Division

Could you talk about the green energy credits that you received in 2Q? What was the amount? Are they nonrecurring? And then to the extent that you can comment, the fact you're seeing so much in the way of imports into North America, is that affecting any of your tactics and for that matter, the behavior of producers in the region vis-a-vis their margin efforts? And then I guess relatedly, you're saying imports, I believe, into Europe as well from what I heard from Jean-Michel, I recognize it's slow, but is it changing behavior at all? And how are you contending with that?

Don Devlin
Chief Financial Officer

George, this is Don. So your first question relative to the green credits in Q2, they were $8 million.

Jean-Michel Ribiéras
Chairman & CEO

And this is recurrent.

Don Devlin
Chief Financial Officer

Yes. It is Something that recurs throughout the year.

George Staphos
BofA Securities, Research Division

Okay. Got it. And behavior and what's going on?

John Sims
Senior VP & COO

Well, with the import situation in the U.S., just our view with that, a lot of that in the first quarter was due to anticipation of the tariffs being implemented. Given where we stand today with the tariff, we're expecting imports to decrease into U.S. because of the high level of tariffs that being applied, particularly on those countries that -- where those imports will be coming into. So in general, we believe in North America, that with the closure of the Chillicothe mill and the reduction in imports, operating rates are going to improve, probably to be in the mid-90s in the second half of the year.

In terms of our tactics, no, I mean I think that our strategy continues to be, as we said, to be focused on uncoated freesheet. We want to be the supplier of choice for our customers, we're continuously working to improve our cost position, our competitive advantages, and value of our brands and what we provide to the customers. This is why it's so important for us, we believe, to debottleneck the Eastover mill so that

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we can produce more uncoated freesheet. And the timing is going to look, we believe, pretty good on that, given where we think that the operating rates, where we think the import situation is going to be near term and also longer term.

George Staphos
BofA Securities, Research Division

I mean John, I appreciate that. Have you seen looking at 2Q and to-date 3Q, recognizing you can't comment on a forward basis. Did the fact that you had more supply perhaps from imports change any of the competitive activity on pricing? Was a little bit more intense on pricing than you would expected? I think from your waterfall, it's a little bit worse than you would've expected. So if you can talk a little bit about that across the regions.

John Sims
Senior VP & COO

Yes. I mean, I think the candid answer is we put a price increase announcement to our customers in the first part of this year, and we realized much less than what we expected. And that was driven -- attributed to the increase in the imports and also the fact that with the announced closure of the Chillicothe, there was an effort by them to sell their inventory at very low prices, which impacted our ability to get the price increase that we would have expected. And so yes, that did impact us in the short term.

Operator

I'll now turn the call back over to Hans Bjorkman for any closing comments.

Hans Bjorkman
Vice President of Investor Relations

All right. Thank you. I'm going to let John-Michel, do a quick wrap up.

Jean-Michel Ribiéras
Chairman & CEO

So thank you, first of all, for all joining our call. We understand we're facing some difficult industry conditions, but we've faced them before. So we have a very strong position financially and we think we can continue to perform very strongly through the cycles. We're committed to a long-term strategy of reinvesting in our business to increase our competitive advantages and returning cash to shareowners. We're in the process of executing a seamless CEO and CFO transition plan with John and Don, as we prepare for my retirement. Our long-term strategy investment thesis remain intact. So we're really confident in our ability to generate strong earnings and cash flow through the cycle. Thank you for joining again.

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

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