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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 Third 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, Tina. Good morning, and thank you for joining our third quarter 2025 earnings call. Our speakers this morning are Jean-Michel Ribiéras, Chairman and Chief Executive Officer; John Sims, Senior Vice President and 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 third quarter highlights. Our uncoated freesheet sales volume increased quarter-over-quarter by 7%. Our teams also executed well, resulting in improved operational performance. We returned $60 million in cash to shareowners by distributing $18 million in third quarter dividend and repurchasing $42 million in shares. Our Board also approved a new $150 million share repurchase authorization in the quarter. Let's move to the next slide. Slide 5 shows the third quarter key financial metrics. We earned adjusted EBITDA of $151 million with a margin of 18%. Free cash flow was $33 million and we generated adjusted operating earnings of $1.44 per share. Now I will turn it over to Don to review our performance in more detail.

Don Devlin
Senior VP & Chief Financial Officer

Thank you, Jean-Michel, and good morning, everyone. Slide 6 contains our third quarter earnings bridge versus the second quarter. The $151 million of adjusted EBITDA was in line with our outlook of $145 million to $165 million. Price and mix was unfavorable by $14 million, primarily driven by paper and pulp prices in Europe. Volume increased by $14 million, mainly driven by stronger seasonality in Latin America and North America. Operations and other costs were favorable by $5 million, driven by improved operational performance. Planned maintenance outage costs improved by $66 million as we had no planned outages at our mills. Input and transportation costs were unfavorable by $2 million.

Let's move to Slide 7. North America and Brazil industry conditions are solid while Europe and other Latin America are challenged. In Europe, market conditions continue to be very challenging. Pulp and uncoated freesheet prices remained under pressure. However, some pulp grades started to show signs of recovery at the end of the third quarter. Uncoated freesheet demand is down 5% year-over-year through September, while supply is down 7%. Wood costs in Southern Sweden are starting to ease, recently decreasing by a reported 8%.

In Latin America, demand remains mixed. Brazil is up 3% year-over-year through September and prices are stable. However, demand in other Latin American countries are down 5%. Pricing is under pressure in some countries. Even though the majority of this demand decline is due to Argentina and Mexico, some countries across other Latin America are having economic challenges as well. This demand decline in addition to shifts in global trade flows is resulting in continued pricing pressure across other Latin America.

In North America demand is stable year-over-year through September. Imports were up 46%

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year-over-year through August in anticipation of the tariffs are expected to moderate. In fact, customer feedback indicates inventories from increased imports are being consumed and returning to normal levels.

Industry supply was reduced by 6% in the third quarter after Pixelle closed their Chillicothe Ohio mill in August. There's still uncertainty caused by the U.S. tariffs, which may take a while to settle out.

Let's go to Slide 8. Looking ahead, we expect to deliver fourth quarter adjusted EBITDA of $115 million to $130 million. We project price and mix to be unfavorable by $20 million to $25 million, primarily due to paper prices in Europe and mix across the regions. We expect volume to be favorable by $15 million to $20 million, largely due to Latin America and North America. Other operations and other costs are projected to be unfavorable by $5 million to $10 million, primarily due to seasonally higher costs, and we expect input and transportation costs to be stable. Planned maintenance outages will be unfavorable by $18 million as we have 1 outage in North America planned in the quarter.

Let's move to Slide 9. In August, International Paper announced plans to convert their uncoated freesheet paper machine at its Riverdale mill to produce containerboard by the third quarter of 2026. Last week, we announced we would continue to receive uncoated freesheet from Riverdale Mill until May 2026. Riverdale should supply us with approximately 260,000 tons in 2025 and we expect to receive around 100,000 tons in 2026. As a result of the supply agreement ending, we will optimize our product segment and customer mix and leverage our European mills to supply the U.S. and Mexico. We will be building inventory over time to help bridge the gap until our Eastover investments are complete, and we have the additional 60,000 tons of incremental capacity, which is expected to ramp up in the fourth quarter of 2026.

Let's go to Slide 10. The Riverdale amendments we recently executed had a few components. One component was the IP agreeing to a $15 million reduction to the $100 million payment we would owe to IP in the event we sell the Brazil forestlands. We have no intention of selling forestlands as we believe we are unlocking value every day by producing uncoated freesheet. Owning forestlands in Brazil is a unique strength that differentiates Sylvamo. These assets provide a competitive advantage and goes beyond operational benefits. Direct control over wood fiber ensures security of supply, reduces exposure to market volatility and supports long-term cost management.

Our forestlands represent a significant part of our intrinsic value that we feel is not reflected in our current market valuation. We recently had an appraisal completed on our forestlands, which are now valued at almost BRL 5 billion. Forestlands are tangible and appreciating resources that are the cornerstone of our strategy, delivering cost advantages and a source of intrinsic value for our shareowners. Now I'll turn the call over to John.

John Sims
Senior VP & CHIEF OPERATING OFFICER

Thank you, Don, and good morning, everyone. I'll pick up on Slide 11. As we navigate through cyclical industry conditions and headwinds, we are focused on the things we can control. We are continuously working to improve our business. We are driving operational excellence and strategic initiatives across all our regions. These efforts should improve margins, reduce costs and strengthen our competitive position. In Europe, we're improving our product mix, winning new customers at our Saillat mill. We're actively working to reduce wood cost at Nymolla, a key lever of cost efficiency. Additionally, we're focused on reducing fixed costs and improving operational efficiency and reliability across the European region. In Latin America, we've secured new strategic Brazilian customers and further developed key partnerships in other Latin American countries, expanding our market presence. We're investing to improve wood self sufficiency to reduce costs by decreasing the need for higher cost third-party wood. Our team is also executing a pipeline of more than 100 initiatives across the entire business designed to strengthen EBITDA and cash flow.

In North America, we're focused on strategic commercial initiatives to improve volume and margin by reducing supply chain costs and optimizing inventory. Finally, we're investing in our flagship mill in Eastover, South Carolina to improve our competitive advantages by lowering costs, enhancing efficiency and increasing capacity by 60,000 tons. Across all regions, these initiatives reflect our commitment to customers, operational efficiency and strategic investments to deliver sustainable value.

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So let's move to Slide 12. Our long-term capital allocation strategy drives shareholder value. We are focused on maintaining a strong financial position, reinvesting in our business and returning cash to shareowners. Our healthy financial position allows us to stay focused on our customers with a long-term perspective in mind, especially during times of challenging industry conditions like we're currently experiencing in some of our markets. It enables reinvesting in our business, enhancing our reliability, productivity and improving our service through operational excellence initiatives and it preserves the flexibility to return cash to shareowners.

Dividends are an important part of our cash returns to shareowners and after paying $0.45 per share in all 4 quarters, we have returned approximately $73 million through dividends this year. Another strategic pillar of cash returns to shareowners are share repurchases. We will continue to evaluate opportunities to repurchase shares at attractive prices, especially when we feel our valuation is well below our intrinsic value. This is why in the third quarter, we repurchased $42 million worth of shares at an average price of $44.74, exhausting the remaining amount of our share repurchase authorization. This brings our year-to-date share repurchases to $82 million. In September, the Board also approved a new $150 million share repurchase authorization.

Slide 13. Our strategy is to be singularly focused on uncoated freesheet paper which remains the largest and most resilient segment in the graphic paper space. We view the uncoated freesheet industry landscape as an opportunity. We are investing to strengthen our competitive advantages to drive earnings and cash flows. We view these investments as high return and low risk as we are staying in our core product line and reinforcing our position as a supplier of choice for customers. We will leverage our strength to generate high returns on invested capital. I'll now wrap up my comments on the next slide, Slide 14.

You likely saw some public filings yesterday related to Atlas Holdings and a couple of our directors resigning. I want to spend a minute discussing this topic. At the direction of Atlas Holdings, Karl Meyers and Mark Wilde resigned from the Board effective November 5. I would like to thank both of them for their contribution to Sylvamo. As a reminder, they both joined our Board in 2023 as part of a cooperation agreement with Atlas. Sylvamo Board also thanks them for their service. With these resignations, the restrictions on Atlas and the cooperation agreement will terminate. When we move to the Q&A portion of this call, I hope you can appreciate that we will not be taking questions or commenting further on this matter. We appreciate your cooperation on that.

Lastly, as we prepare for our leadership transition on January 1, and I am honored to lead Sylvamo as the next CEO. As Jean-Michel is retiring at the end of the year, on behalf of our senior lead team and all the employees of Sylvamo, I would like to take this opportunity to thank him for his 4-plus years of dedication to Sylvamo as its CEO. He led Sylvamo through the spin-off and other challenges in our first few years and has been instrumental to Sylvamo's success, positioning it for further long-term value creation. We wish him all the best. Jean-Michel, would you like to say a few words?

Jean-Michel Ribiéras
Chairman & CEO

Thanks, John. I appreciate your kind words and well wishes. Leading Sylvamo has been an absolute honor these past 4 years, and I'm pleased with everything we have accomplished. I would like to thank our employees, customers, suppliers and investors for their support and partnership. I'll leave knowing that the company is in very good hands, and its brighter days ahead of it. As I've said many times before, I'm confident in the future for Sylvamo and motivated by the opportunities that lie ahead. Thank you. I'll now turn it over to Hans.

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

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Question and Answer

Operator

[Operator Instructions] Our first question comes from Daniel Harriman with Sidoti.

Daniel Harriman
Sidoti & Company, LLC

Jean-Michel, congratulations on the retirement, and we certainly appreciate all your help since we've had you under coverage. I just have -- I'll start off with 1 today, and then I'll get back in the queue. But regarding North America, you highlighted stable demand even with imports running higher earlier than the year. And as those inventories continue to be worked down, I'm wondering if you think we can expect that normalization to translate into potentially a more stable or improved pricing environment as we move into 2026.

John Sims
Senior VP & CHIEF OPERATING OFFICER

Daniel, it's John Sims. Thanks for your question. Yes, we're expecting and we are already seeing and we heard from our customers that the inventory is being working down -- worked down from the import surge that occurred earlier in the year as a result of the threat of tariffs, if you will. And that is working through the system and also the fact that imports have actually started to decrease coming in as a result of the tariff. And then also, you have the closure of the Chillicothe mill that we talked about, so that the operating rate should improve and strengthen going into next year.

Operator

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

Matthew McKellar
RBC Capital Markets, Research Division

Just a follow-up on the last one there. How far along are we in that process of inventories being consumed? Are they approaching normal levels today? Is that something you'd expect by year-end? Or will that process continue into '26?

John Sims
Senior VP & CHIEF OPERATING OFFICER

No, I would say that we're approaching normal levels right now. That's how we're seeing it currently.

Matthew McKellar
RBC Capital Markets, Research Division

Okay. Very helpful. And then a couple of quick ones on Riverdale, and how you're preparing for the end of that supply agreement. Can you give us a sense of how much inventory you're intending to build to bridge you to that incremental capacity at Eastover? And then maybe what kind of working capital investment you'd expect? And then at the time that the cancellation of that supply agreement was announced, I think you said the impact to 2026 EBITDA would be about $30 million at current margins. Is that still a good estimate of what you expect the impact to be based on how margins may have evolved and any changes to your plans since that time?

Don Devlin
Senior VP & Chief Financial Officer

Matthew, this is Don. Thanks for the question. So for the first part of your question, we plan to build about 60,000 tons of inventory through the year. Most of it will happen in the first half leading up to the Eastover outage for the conversion speed up of Eastover. And then we plan to consume that inventory in the balance of the year. So from beginning to end, it would even out and relative to the $30 million, I think

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in the previous call, we estimated the impact to Riverdale to be about $30 million. And that's the same. That hasn't changed for 2026.

Operator

[Operator Instructions] And with no further questions in queue, I will now hand the call back to Hans Bjorkman for closing remarks.

Hans Bjorkman
Vice President of Investor Relations

Thanks, Tina. We appreciate it, and thank you all for joining our call today. We appreciate your interest in Sylvamo, and we look forward to our continued conversations over the coming weeks. Thank you.

Jean-Michel Ribiéras
Chairman & CEO

Thank you. Bye.

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

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