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International Paper Co. (IP)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for standing by. Welcome to International Paper's DS Smith Separation Update Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, you will have an opportunity to ask questions. [Operator Instructions]

It is now my pleasure to turn the call over to Mandi Gilliland, Senior Director of Investor Relations. Ma'am, the floor is yours.

Mandi Gilliland

Senior Director-Investor Relations, International Paper Co.

Thank you, Christa, and welcome everyone. Joining me today is Andy Silvernail, Chairman and Chief Executive Officer; and Lance Loeffler, Senior Vice President and Chief Financial Officer. We are holding this webcast to discuss the approved spin-off of our EMEA Packaging Business, which we announced this morning, including the strategic rationale for the separation, key terms, and expected benefits for our shareholders and other stakeholders.

Before we begin, please note that today's discussion includes forward-looking statements regarding the separation and our future plans, expectations, and performance. These statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such statements. Information regarding these risks and uncertainties is included in today's press release and our filings with the US Securities and Exchange Commission.

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During this webcast, we will also refer to certain non-GAAP financial measures. Reconciliations of those measures to the most directly comparable GAAP measures, where applicable, are available in our quarterly reports filed with the SEC or on our website.

With that, I will turn the call over to Andy Silvernail.

Andrew K. Silvernail

Chairman & Chief Executive Officer, International Paper Co.

Thank you, Mandi. Good morning, good afternoon, everyone. Today is an important milestone for International Paper. This morning, we announced that our board of directors has approved the spin-off of DS Smith, our EMEA Packaging Business, into a stand-alone company. We expect to complete it on December 7th, pending regulatory approvals. When it closes, International Paper will be a pure-play sustainable packaging solutions company and the leader in the attractive North American market. We are well-positioned to generate value for our customers, our people, and our shareholders.

I'll cover four things today: the rationale and the terms of the spin-off, the future of International Paper, our path to continuous improvement in 2027 and beyond, and how we allocate capital. Let me start by reiterating our rationale, and then I'll walk you through the details.

Combining International Paper and DS Smith drove greater scale and competitiveness in both North America and EMEA. We brought our EMEA businesses together under DS Smith and folded DS Smith North American operations into ours. Those regional integrations created meaningful improvement within each geography.

Now, we have the opportunity to unleash the potential of both businesses. Each can focus on its unique aspect of its own market with laser regional focus and tailored capital allocation strategy that will accelerate value for customers and shareholders. We have continued to invest ingressively in both businesses and we will complete the spinoff ahead of the 12- to 15-month timeline, we originally committed to. Throughout the separation process, we reviewed several options with a focus on maximizing shareholder value. After carefully evaluating sale alternatives, the spin was a clear choice. The spin maximizes value, while providing clean, certain and timely path for International Paper, DS Smith and our shareholders.

Moving to the transaction details. When the spin is completed on December 7, International Paper shareholders will see DS Smith shares in a taxable distribution. DS Smith's ordinary shares will trade on the main market of the London Stock Exchange. A Level II American Depositary Receipt program will be listed on the New York Stock Exchange. Both will trade under the symbol SMDS. Separately, International Paper will delist its shares from the London Stock Exchange by the end of 2026. You can find more details on the share distribution and the distribution ratio in our press release on our website.

As a result of the transaction, we will move DS Smith to discontinued operations in the fourth quarter for IP's financial reporting. International Paper expects to reduce debt on our balance sheet by approximately $2 billion, and both companies are expected to have investment-grade balance sheets. International Paper will retain a 19.9% stake in DS Smith with Lance Loeffler serving as board of directors. Under the leadership of Tim Nicholls and Vincent Bonnot, DS Smith has done an outstanding job, creating a compelling self-helped story and a strong team. As a shareholder, we are confident in the future of DS Smith and will share its success.

With that, let's turn to the future of International Paper. As I mentioned earlier, we will become a focused, simpler business with attractive economics and a clear investment proposition. Much of the volatility that investors have

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historically experienced from International Paper has been of our own making, underinvested assets, excess capacity, investments that rose and fell with the cycle and poor capital allocation decisions have all played a role.

Over the past two years, we've made significant progress in North America. With a stronger asset base, a lower cost structure, steady investment and significantly reduced volatility, we're positioned to deliver more consistent performance through the cycle. Our overall investment strategy remains the same. Control our own destiny by executing the three pillars of advantaged cost position, superior customer experience, and high relative supply position in the markets we serve. What will change is our geographic focus. Once the spinoff is complete next month, we will build on the progressive – the progress we've made already in North America to accelerate our strategy.

On cost, we closed more than 20 mills and box plants and taken out roughly 20% of our mill capacity. These assets required large capital calls or failed to earn their cost of capital. We also reduced our overhead structure to focus our portfolio on the markets and geographies with the strongest strategic fit, including selling Global Cellulose Fibers and now spinning DS Smith. We are also removing the stranded cost from these changes.

On customer experience, we're building a culture, where every person at International Paper is focused on delivering for customers and driving value. Over the past two years, we've invested more than 50% per facility compared to our yearly average in 2022 to 2024. We strengthened our portfolio through the strategic acquisitions of NORPAC and the Dover Box Plant, the Riverdale conversion, and our new state-of-the-art box plant in Waterloo, Iowa, which began operating quarter. We've also announced that we're building a new packaging facility in Mississippi. Our customers feel the difference in better quality and more reliable on-time delivery.

In 2022, we trailed among the major producers in customer satisfaction. Today, we ranked first in Net Promoter Score and on supply position, we're winning business. Given performance to-date and expectations for Q4, we expect to outgrow the market by about 2 points this year. The results are starting to follow. We expect North America adjusted EBITDA in 2026 to be up more than 35% from 2024. And we are ramping performance in the second half of 2026.

Over the past two and a half years, we have moved the big rocks: our portfolio, our excess capacity and our cost structure. We've also improved how we invest from strengthening our core asset base to targeted bolt-on acquisitions that grow our overall strategy – our overall strategy remains the same, to control our own destiny by executing three pillars our advantaged cost position, customer experience and high relative supply positions in the markets we serve.

On customer experience, we're building our culture, where every person in International Paper is focused on delivering for customers and driving value. We strengthened our portfolio through strategic acquisitions in NORPAC and at Dover box plant, the Riverdale conversion and our new state-of-the-art box plant in Waterloo, Iowa.

As I said, the results are starting [ph] to follow (00:06:11). Over the past two and half years, we've moved the big rocks: our portfolio, our excess capacity and our cost structure. We've also improved how we invest to strengthening our core asset base to targeted bolt-on acquisitions that grow our share in attractive regions. With the large structural changes executed, our focus has turned to building a culture of relentless and continuous improvement, that doesn't come from a handful of decisions at the top. It comes from thousands of people, solving problems every day, in every mill, in every box plant dedicated to delivering for our customers and shareholders. We are matching our portfolio decisions with investments, with the winning organization and culture.

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Our mission and our values haven't changed, but we're raising the bar on how we lead and how we work. We simplify priorities, concentrate on resources, where they matter most, we sharpened our focus on value creation. We are driving performance through an integrated approach that brings together people, plan, and process, built on the fundamentals of 80/20.

Our operating system executes our priorities more consistently, accelerates continuous improvement, and drives a culture of safety, accountability and operational excellence. Our combination of strategic focus, disciplined investment and accountability is how we'll win and is – it – what matters most in this current market environment. The past two and a half years have been challenging with weak consumer confidence and surging inflation. Given ongoing market and [ph] geopolitical activity (00:07:42), we expect these conditions to continue in 2027. Our job is to overcome these headwinds and we're well-positioned to do so next year.

Cost reductions and price utilization will continue to flow through our P&L in 2027. We are driving significant productivity in our mill and converting systems, as our investments from the past two years take hold. Commercially, we've built depth and breadth. We expect to continue to grow ahead of the market and we'll keep investing in service, quality, and innovation, our customers value. Once the spin is complete, we will aggressively fund our priorities through free cash flow. The strength of our business gives us flexibility in capital allocation, and we'll use a disciplined approach with the following framework.

Our first priority is to invest in the business, year in and year out. We underinvested in our core business for a decade, and we won't make that mistake again. We expect capital spending to remain elevated for the next couple of years, as we strengthen our foundation with next year's spending projected to be approximately $1.25 billion to $1.4 billion. We expect capital spending to normalize at about 7.5% of sales over time. And it won't turn off and on with the cycle.

Second, we'll strengthen the balance sheet and pay down debt. We intend to reduce leverage, and free cash flow after the dividend, along with the proceeds from the sale of our retained stake in DS Smith, in the near- to medium-term. Over time, our goal is to reach net debt to EBITDA of 1.5 times at mid-cycle. A strong balance sheet enables us to invest through the cycle, not just [ph] in times for good (00:09:19).

Third, we will reward our shareholders with our consistent dividend that grows reliably, the free cash flow performance. In 2027, we expect the dividend to be approximately $550 million, subject to board approval. Over the long-term, we expect our dividend to represent 40% to 50% of mid-cycle free cash flow. Separately, DS Smith announced their dividend approach of 30% to 50% of adjusted earnings at their recent Capital Markets Day.

Fourth, we will pursue disciplined bolt-on acquisitions that support our core strategic principles and accelerate value creation. These will be small- to mid-sized deals that complement our strategy, mostly converting facilities or select high-quality mills similar to NORPAC.

And fifth, share repurchases. I believe judicious share buybacks can drive meaningful shareholder value when they are done counter-cyclically and at a discount to intrinsic value. Importantly, when appropriate, we will be building cash for a future deployment and that's the best choice within our capital structure.

Before we go to questions, I want to come back to people. What our team has done over the past two and a half years to transform this business is impressive. We have made hard, courageous choices, brought new assets online, for executing the spin-off and delivered customer excellence through it all. Now, we are going to harness the same energy to drive relentless improvement for our customers, our people and our shareholders.

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The new International Paper will be the North American sustainable packaging leader with a proven strategy, a stronger asset base, a lower cost structure, a people-driven, high-performance culture, and a clear plan for every dollar we generate. Our confidence is grounded in what we can accomplish, and the actions are underway. And it's not an assumption that the environment will get easier. We've made great progress. Now, we elevate our focus, discipline and execution to create a bright future. I'm very excited about we are going to take International Paper.

With that, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is going to come from the line of Anthony Pettinari with Citigroup. Please go ahead.

Anthony James Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Good morning.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Good morning, Anthony. How are you today?

Anthony James Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Andy, you – hey, good, good. You outlined kind of the capital needs of the business going forward. But I'm wondering if you could put any finer point on work, what still needs to be done. I guess, I'm thinking from a converting system perspective versus a mill perspective and what are kind of the main things on your to-do list as you think about the next...

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Yeah.

Anthony James Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

...couple of years?

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Yeah. Thank you, Anthony. So if you go back two years from today, after I joined the company at our first strategy meeting with our board, we came forward with a very ingressive capital plan to update the overall productivity capability of the organization. And we did a pretty substantial pre-buy of converting equipment. That equipment is really just starting to layer in now. It started it – earlier this year. It's going to layer in all through next year. And we're going to continue to do that, to modernize the facility. So if you think of converting equipment across the

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enterprise, if you think of what we're doing in Waterloo, if you think of what we're going to do in Mississippi, we will continue to invest across the mill system.

The good part is, is that the really big things are done. And so in terms of kind of those large structural changes, those massively underinvested assets. And so what I feel really good about, Anthony is our ability to move from what I'm calling these big rocks to really aggressive continuous improvement. So a lot of it now is nuts and bolts execution. So capital has been acquired or is being acquired. It's been layered in intelligently over time. And so, we expect to drive productivity, customer performance and overall profitability improvements pretty consistently over the next few years with a little bit of an elevated CapEx strategy on many fewer assets, by the way, which is important, but ultimately, I think position us just for success.

So the net of it is, we'll drive higher productivity than what I would say is kind of trend line or baseline for the industry. We'll continue to drive our advantage in terms of customer service and really continue to put ourselves in a good place for success. I do believe that after a couple more years of elevated CapEx, we'll then come to a more normal sort of 7.5% of sales.

Anthony James Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's very helpful. I'll turn it over.

Operator: Your next question comes from the line of Mike Roxland with Truist Securities. Please go ahead.

Michael Roxland
Analyst, Truist Securities, Inc.

Q

Yeah. Congrats, Andy, Lance, Mandi and Michele on finalizing the spin.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Thank you.

Michael Roxland
Analyst, Truist Securities, Inc.

Q

Two quick questions for me. Just in terms of the tax leakage from the spin, can you comment about any potential tax leakage in light of some of the goodwill write-downs you've taken in recent quarters of DS Smith?

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Lance, you want tackle that?

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.

A

Yeah, sure. I can take that. Very simply, Mike, that there is no tax leakage from this transaction, any material tax leakage. It's pretty straightforward, given the write-offs that you sort of referred to, we're not in a position to pay any cash taxes to put in the spin.

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Michael Roxland
Analyst, Truist Securities, Inc.

Q

Got it. Perfect. Two quick follow-ups, in terms of looking at 19.9% stake, can you remind us if there's anything that you're required to do? You have to help DS Smith with CapEx or any other capital that you will need to deploy in the business at all? And secondly, just Andy, you mentioned EBITDA being up 35% versus 2024 levels [indiscernible] (00:16:02) North America that implies about $2.4 billion EBITDA if I did my calculations correctly. One, is that correct? And two, how should we think about – does that $2.4 billion also reflect maybe some of the one-off items you had this year, in terms of the weather issues in 1Q, the Riverdale conversion, NORPAC, Pinehill, how should we think about what you just laid out there in terms of EBITDA for this year and some of those one-offs? Thank you.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Yes. So...

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.

A

Maybe Andy, you want me...

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Go ahead, Lance.

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.

A

...to take the first question...

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Yeah.

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.

A

...on the...

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Yes, please.

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.

A

...on separation? So in terms of the relationship between us and DS Smith, yes, there are certain agreements that will carry us through. We've got Transition Service Agreement and some other ancillary things that will require a relationship for a period of time. But they're not extensive. And our expectation around our ownership and therefore our board seat sort of mimics the fact that as we exit the investment over time, that board seat will go

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away. So I think effectively, it's going to be a relatively clean separation. And we're excited to see where Tim and Vincent and that management team take DS Smith going forward.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.
A

Yeah. So relative to the second question, our outlook for the fourth quarter is unchanged. So no change to what we said in our earnings call. Probably the difference in the math you're doing is, I'm building off the baseline of the North American packaging business from 2024 that – and so the overall number of IP included Global Cellulose Fibers.

Michael Roxland
Analyst, Truist Securities, Inc.
Q

Got it. Thank you.

Operator: Our next question is going to come from the line of Phil Ng with Jefferies. Please go ahead.

Philip Ng
Analyst, Jefferies LLC
Q

Hey, guys. Exciting news. Andy, appreciate some of the color you shared on capital deployment. I think you're calling for $550 million dividend next year. That's a pretty meaningful reduction you've accounted for the spin. And then you're targeting a leverage ratio closer to 1.5 times. So, I appreciate CapEx is going to be more elevated, but I guess help us kind of think through some of those components. Just you have some concerns, the businesses perhaps might be more cyclical. You want to take more conservative approach or there's more things that we need to consider in terms of buybacks or M&A that's driving how you're managing your cash flow and then reallocating capital volume in here?

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.
A

Yeah. So the decision relative to the dividend was really much the decision relative to those priorities that I went through in my prepared remarks. So the first thing is, is that we want to fully invest in the business and always want to fully invest in the business. I think that's really critical that we're doing that over time. Second as it comes to the dividend itself, very, very consistent with what we've been saying since we announced the spin in January of last year, which is we wanted to be in the kind of that 40% to 50% of free cash flow range at mid-cycle.

And if you do the math in terms of kind of where consensus is for next year and whatnot, and you assume that we're a little bit below that mid-cycle range, it makes a lot of sense, where we've landed. Importantly, right, we do want to de-lever. We want to have that capital flexibility, no commentary. This should not be viewed in any way as any commentary about a change in view of kind of where we stand in the market, our confidence levels, et cetera. It should be viewed very, very consistently with what we've been saying for almost a year now and where the outlook is relative to kind of ongoing market conditions.

Philip Ng
Analyst, Jefferies LLC
Q

CapEx staying elevated next few years. And you talked about some heavy boulders, you've already deployed capital, which is exciting. You're going to get a payback next year and beyond. What are some of the other pockets that you want to deploy that is lacking, I guess because as you kind of pointed out, the company's

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underinvested that's going to be driving some of the more elevated CapEx and the type of returns you expect from this investment?

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.
A

Yeah. Really, it's very consistent with what we've said already, right. So in terms of kind of investing back into the fleet, right, you get a 16 mill fleet, you've got well over 100 converting facilities across North America. And you're going to be investing pretty aggressively across those fleets. We are absolutely changing. We have changed our investment philosophy, where I think in the past, probably what happened was, number one, you had depleted investment just kind of generally. And two, I would say there was a behavior of kind of peanut butter spreading. And we are driving capital towards those assets, those locations, those teams, those customers that have much higher returns.

And if you look at what we've done over the last couple of years, right, we have steered away those assets in those chunks of business that frankly had lower returns on capital, lower cash flows over time. And we've made that shift. And that's what we're starting to see in terms of the ramp in the second half of this year, our expectations into next year. So it's not one big thing that we – or a few big things that we've talked about in the past. You do have some stuff that we – that will get some more investment than others. So for instance, we view the NORPAC acquisition as having a lot of upside. And so, we're going to invest in there to unlock West Coast capacity.

Obviously, the Riverdale ramp is a big win. We're going to open the Mississippi facility, it's going to be very similar to Waterloo. So there are a few big things that we've talked about in the past, but there's kind of no big thing, no big announcement you should expect to see here in the near future.

Philip Ng
Analyst, Jefferies LLC
Q

Okay. Appreciate the color, Andy. Thank you so much.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.
A

Yeah.

Operator: Your next question comes from the line of George Staphos with Bank of America. Please go ahead.

George L. Staphos
Analyst, BofA Securities, Inc.
Q

Thanks. Hi, everyone. Good morning. Appreciate the details.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.
A

Good morning.

George L. Staphos
Analyst, BofA Securities, Inc.
Q

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I wondered – how are you, Andy? I wanted to pick up on that line of questioning. So I think, I heard you said that some of your investment you pre-loaded that you bought ahead some equipment. I was wondering if you could talk about in dollar terms what that is or in terms of the type of equipment, how that will avoid you – allow you to avoid capital spending over the next couple of years, even as CapEx is going up?

So where have you pre-bought? How does it help you and help us understand how much you've pre-bought, even though CapEx is still rising over the next couple of years? Relatedly, in terms of growth, when you talked with your customers about how they're using corrugated in their mix, what is the thing that would make them use even more corrugated? We've been in a period where corrugated shipments have been I understand you're outgrowing the industry, have been relatively flat to down.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.
A

Yeah.

George L. Staphos
Analyst, BofA Securities, Inc.
Q

You are trying to pass through rightly inflation. What would help them use more corrugated versus mailers versus other substrates so that actually your volumes and other players in the market in corrugated could see better volume on a going forward basis? Thank you.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.
A

Yes. Thanks, George. There is two kind of definitive questions in there, so let's make sure I answer them both. And if I don't, come back to it. So first on the pre-buy, we haven't broken out specifically what that is, but it's hundreds of millions of dollars from that first pre-buy. And we've consistently now done that each year and we'll do that again this year. The goal in that, George, is frankly to make sure that we are ahead in line on demand for converting equipment. And I'm talking really specifically about converting equipment.

George L. Staphos
Analyst, BofA Securities, Inc.
Q

Okay.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.
A

And to make sure that we have a schedule that is reliable, that we can then layer in over time. So we have a multi-year plan of upgrading our converting system and frankly, our mill system, too. And so what we did, what we wanted to do in 2024 was to get ahead. And so, as we were taking some of these really large structural moves and that have taken a lot of focus and a lot of courage to do that as equipment was ready with the kind of lead times that are in the industry that we could then layer that in.

So we've tried to really get ahead of the industry and make sure that we don't find ourselves with extended lead times. That would then create bottlenecks for driving performance for customers, for driving performance for safety and ultimately productivity and profitability. And so from that perspective, this is something that really started a couple of years ago and we've continued to do that. So again, we haven't broken it out in specific terms. But we, you're talking about hundreds of millions of dollars in total over the timeframe that we're talking about.

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On the second question around the amount of corrugated that customers are going to use, I think the biggest thing right now is you got two kind of broad segments of the economy for, I'm going to call it the middle part of the economy and below, in terms of earners that have really struggled. And that's around if you look at the CPG companies to some degree, parts of, other parts of food, because of inflation and then housing, those two things are big chunks of the overall industry and us. And those have been really depressed in the last few years because of inflation and interest rates.

And so, there's a big affordability question that's been on everybody's mind, has played a very large role in that middle to lower segment of the economy. And so, I don't think it's a question of corrugated intensity for our customers, meaning they're going to use more per unit of value. It's really in aggregate more as those sections of the economy come back.

George L. Staphos
Analyst, BofA Securities, Inc.

Q

And that's what your customers have told you, Andy, that's not...

A

[indiscernible] (00:27:01)

George L. Staphos
Analyst, BofA Securities, Inc.

Q

...intensity, in fact, mix is – okay.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Yeah. It's – and if you look, if you just look at our customers, look at those end markets I'm talking about, you can see it plainly in their data.

George L. Staphos
Analyst, BofA Securities, Inc.

Q

Okay. Thanks, Andy. Appreciate it.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Thank you. You bet.

Operator: Your next question comes from the line of Hillary Cacanando with Deutsche Bank. Please go ahead.

Hillary Cacanando
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Congratulations. And thank you for taking my question. So in last week's filing, it was indicated that DS Smith has received financing of €1.9 billion. So given that DS Smith is targeting cash position of €350 million, what happens to the implied $1.55 billion of net funding? Could that potentially be transferred to IP to pay down debt? And does that represent the funding for the $2 billion debt reduction that you just talked about before?

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Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.
A

Yeah...

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.
A

Lance, you want to tackle that?

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.
A

Yeah. Hillary, sorry, this is Lance. Yes, you're exactly right. So there will be about $2 billion less of notional debt that is removed from RemainCo's balance sheet or IP's balance sheet. And sort of on a net basis, I think is where you're kind of working through the $1.5 billion. But yes, we will still have...

Hillary Cacanando
Analyst, Deutsche Bank Securities, Inc.
Q

Yes, yes.

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.
A

...yeah, we will save cash and effectively a rebuilt balance sheet with SpinCo with DS Smith.

Hillary Cacanando
Analyst, Deutsche Bank Securities, Inc.
Q

Great. And you'll use that to pay down debt...

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.
A

That's correct. That's correct. At...

Hillary Cacanando
Analyst, Deutsche Bank Securities, Inc.
Q

Great, great.

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.
A

...IP. So we...

Hillary Cacanando
Analyst, Deutsche Bank Securities, Inc.
Q

Great.

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.
A

...basically exit the transaction around $7.5 billion debt – of gross debt.

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Hillary Cacanando
Analyst, Deutsche Bank Securities, Inc.

Q

$7.5 billion. Okay, great. Thank you so much. Great. And then next could you just talk about the monetization of your 19.9% stake, when will that happen? And then will you use the monetization to further debt reduction, or how would you use that proceeds?

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Yeah. So we will – our intention is to monetize that in 12 to 18 months, but really within kind of when the market conditions really allow it. We expect them to do a very, very good job at – after the spin. We're excited to be shareholders there. Yes, we will monetize that at some point. We've – given the guidance of kind of 12 to 18 months and yes, we will use that to bring down debt.

Hillary Cacanando
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you very much. Congratulations again.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

A

Thank you.

Lance T. Loeffler
Chief Financial Officer & Senior Vice President, International Paper Co.

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Thanks, Hillary.

Operator: And thank you. I'll now turn the call over to Andy Silvernail for closing comments.

Andrew K. Silvernail
Chairman & Chief Executive Officer, International Paper Co.

Well, thank you all very much for joining us here today for this really exciting and important moment for International Paper. I first want to say, I want to thank everybody, all the teams, who have been involved in the incredible heavy lifting over the past two and a half years. So I want to thank the International Paper team that will be the new International Paper team for all the incredible heavy lifting and the work that's been done, both operationally, commercially, talent, building culture. And I want to thank the central team that's been working on this transaction in this process. For those of you who have worked on these kind of things, it's an immense amount of work and they have just done an exceptional job of delivering ahead of the schedule that we had outlined originally.

I also want to thank Tim and the team at DS Smith. In a really, really tough environment, they have controlled their own destiny. They have grabbed on to the levers that they control and they have executed a restructuring, I think, exceptionally well. So I want to thank the entire team for doing that. I also want to thank our board of directors. I want to thank our board of directors for their leadership and their focus and their courage of making these decisions to invest in the core of International Paper, which is a terrific business. And to make the decision to separate DS Smith, which is another terrific business, they can now go compete and win in its own market with its own capital allocation strategy.

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And then finally, to our investors, I want to thank you for your time, your attention, your interest in International Paper and what I believe is going to be a very, very bright future. On the other side of this transaction, we're going to have DS Smith, which is well-positioned to win in its markets and International Paper, which is also well-positioned to win in its markets, which really is a much simpler business, a very, very high-quality business, and that has momentum to win now into the future.

So again, thank you all very much. I appreciate your interest and I look forward to talking to you after the New Year. Take care.

Operator: Once again, we'd like to thank you for participating in International Paper's DS Smith Separation Update Call. You may now disconnect.

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