CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Management Discussion Section

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Thanks for joining us. Happy Veterans Day. Thanks for making it through all the logistics, with the government shutdown, et cetera. My name is Ghansham Panjabi. I'm the packaging and materials equity research analyst. Over the next three days, we have 20-some-odd companies. We'll host through a fireside chat format, including some uncovered ones, and that brings us to International Paper.

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

Pleasure.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

So, International Paper, we have Andy Silvernail. Andy, I had the pleasure of hosting you last year at our conference. We also have the IR team, Michele and Mandi as well. So, thanks again for joining.

I'm going to turn it over to Andy and we'll start with maybe an overview of International Paper.

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

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

We'll build a conversation. This is uncovered, so please send your questions to [ph] sessiontwo@rwbaird.com (00:00:42). So, with that, Andy, welcome.

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

Well, first of all, good morning, everybody. It's good to be here and it's always good to be back at Baird. So, thank you for having me. I always reflect when I come back here, I think the first time I came here was 2000 – no, sorry, it was 1994 or 1995. So, I've been

coming a lot of years to the conference, as I was an analyst back then, and I came a long time when I was CEO of IDEX, and second time back with International Paper. So, it's good to be back here.

So, a little bit about International Paper. We always kind of laugh a little bit because as we think about our name, it actually is no longer really representative of who we are. After the sale of our Global Cellulose Fibers business, which should happen over the next few months, should be executed then, we'll be a 100% sustainable packaging business, we'll be the largest sustainable packaging business in the world, about $24 billion in just packaging revenue and we are on a transformation journey.

So, I started in May of last year. I had a perspective that frankly that the markets had not really understood the core of the packaging business and the value of the packaging business. Today, we are about a 30% market share player in fiber-based packaging in North America and about a 20% player in fiber-based packaging in Europe. In both places, we are the largest player.

And in both places, in different ways, we are undergoing a very significant transformation and that is one of moving from what I'll call a production kind of focused, internally focused organization into a customer-driven organization where we are utilizing the methodology that I have literally utilized throughout my career, which is operationalizing the 80/20 principle and actually in lean principles also together as you really think about where is the point of impact for the customer, what drives value for the customer and then really reengineering your organization around those value flows. And so we have – as we have launched this, we've moved very aggressively.

In the United States, our EBITDA is actually up about 40% on a – on – if you look at the trailing 12 months through the third quarter, EBITDA is up about 40% from about $1.7 billion to, call it, on a run rate about $2.3 billion, somewhere in that range. And so we've had a great run so far in North America, at the same time, while facing huge headwinds in the marketplace.

We came into this year with an expectation of market growth of somewhere north of a point of volume. And we're going to – the year is going to finish in the US market probably down about two. And so that three-point swing is worth somewhere north $200 million, $250 million of operating profit – of EBITDA to our business. And so even with that headwind, we have made that transformation.

And I would say there are really two things that are fundamental to that. The first one started before I joined the company, and I'll give Tom Hamic, who runs North America for us, a lot of credit, who had really the courage to aggressively reinvest back into our converting business. So, on the front end of the business, he started that a little while before I came, with a recognition that we had underinvested for a long period of time in the front end of the business.

And so with that, a couple of things. First, massive changes in customer service. So, when you look at – if you went back three years ago, even two years ago, while we were probably in last place amongst the majors in terms of customer perception, how they viewed us in terms of our engagement with them. In a very short period of time, we have moved to a clear number one, and that's been driven by attention to detail around on-time delivery, around quality and very specifically around engagement with the customers, we dedicate teams to very specific customers, and then what comes out of that is innovation, so that focus there.

The other part is really the investments back into the business, into the capability of converting, because we had been a business that had grown up as, for lack of a better term, in a production-focused world, we really thought of converting is a place where paper went versus that was the front end of the business and that's what the customer cared about. So, that change has been dramatic.

Related to that also has been the really aggressive restructuring of the business. This is a business that had too much overcapacity, had capacity in the wrong places, was focused on the wrong markets, had underinvested in its business for a long period of time. And I'll give you a sense, just a couple of data points in North America that I think are really excellent proof points.

If you look at our spending in our mill system, to our spending in our mill system and our spending in our converting plants on a capital basis of the strategic assets we have kept, so we've eliminated about in total 3 million tons of capacity we've taken out of the market, 3 million tons. We've shut over 10% of our converting capacity and reinvested back into that converting capacity.

But if you look at that investment, it is up 50% year-on-year into the strategic assets, in each mill and in each converting plant, the average mill and the average converting plant that we have decided to keep in our system has seen a 50% increase in spending, and that will continue for the next two years after this, that level of reinvestment back in the business.

So, we're seeing the movement on the customers' side and the result of that is a turn in market share. So, we went from a business that has consistently given up market share over the last decade to a business that won market share last quarter, and we have a very good line of sight for next quarter, this quarter that we're in and through next year. And so we've seen that happen.

The other part is we have radically restructured the cost base of the business. So, I talked about the 3 million tons of capacity that we've taken out. We've also exited non-strategic or poor return on capital businesses, both mills and on the front end of the business, and we have completely decentralized our corporate entity in Memphis.

When I joined, we had almost 2,700 people in Memphis, who were what you would define as the center, that number today is about – is under 400. And not all of those people left the company, but about 1,700 went back into the businesses and the rest of them exited the business. And while there are savings in that, that was not actually the goal. The goal was focus.

And that is what – if you were to ask me a singular thing, what do I care about? It is focus, relentless focus on the customer and getting a cost base right that allows us to reinvest back into that so we can win the business, so then we can grow profitability. That's

what's really happened in North America. Europe's been a different story. We completed the acquisition of DS Smith and, look, we finished that at the end of January. It's been painful.

There's no other two ways. There's no other way to say it. And anything else would frankly [ph] be BS (00:07:55) and it's been painful because the markets have been really tough. People – we knew the markets would be soft. We knew capacity was coming on. But the underlying weakness in the European economy, the combination of tariffs and the war in Ukraine and real concerns in Europe around retirement has led to pretty aggressive savings rates increases and so demand has softened.

And with that demand, unlike what's happened in North America, which has a much more solid supply/demand dynamic in Europe that doesn't, we've seen pricing drop there also. And so the total is almost $300 million of year-over-year impact to profit in Europe. And so we are aggressively administering the same playbook. It comes in a little bit different flavor in Europe because of the structure in Europe, but we are very aggressively restructuring Europe.

And so what – the things that I talked about in terms of the front end of the business in the United States, we've already announced a number of proposed changes, and I'll use that language very carefully because you have to go through a consultation process. You have to go through good faith negotiations. And so you can't show up and say, I've got an answer and here's my number. It doesn't work like that in Europe.

You have to go through the proper discussions. And so we're going through that. And – but with that, we've already announced major changes in terms of very similar a decentralization and a deconstruction of a bunch of centralized structures and people and assets. We have already announced a number of closures and we are going to continue down that path in a very similar way.

And so there's been a lot of activity. It's been a lot of ups and some downs along the way, but we have an enormous faith in the strategy that we have. And I think if there is a single message that I think is important for people to hear from us today is we believe in the strategy that we have and the ups and downs of what the markets have been, it's not that I ignore them at all. I take serious messages around stock reactions. And I don't – I think you're a fool if you ignore the signals that are coming.

That being said, when I think about the way to win in both of these businesses and they're very different in terms of market structures, how they sit in the world, how they compete and we shouldn't conflate them, right? We should not treat them exactly the same. But the playbooks are very similar in terms of eliminating waste, redeploying, focusing at the point of impact on customers and then the return profiles that can come out of that. So, we are going to absolutely stick to our guns in terms of that strategy. Now we're seeing it. It's already paying huge dividends in North America and we have real faith that it will do the same in Europe.

Question And Answer Section

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. So, [ph] sessiontwo@rwbaird.com (00:10:44) or I'll open it up to the floor at some point, too. So, thank you for that, Andy.

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

A

Great. You bet.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

So, you joined, obviously a lot happened last year.

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Right? With – when you joined, you laid out an ambitious vision about the operating model, the 80/20 philosophy, so on and so forth. DS Smith, you talked about divestitures, executed on some of those. So, maybe we could disaggregate that.

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

On the 80/20, how has that embedded the culture? How has that permeated?

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

A

It's gone exceptionally well. I think the benefit of having done this for the last 15 years is – I've seen the movie and a huge piece of this, right, is actually getting people, getting the organization to see the benefits of doing that. So, any time – for any of you who have been through large-scale change, I kind of think of changes as three pieces and it's more of an exponential equation than anything.

It comes down to focus first. It comes down to energy, which is really people and assets and investment. And then you have to catalyze or you absolutely have to catalyze that change. And when you are engaged in 80/20, what 80/20 does is it's incredible common sense about focusing on profit pools. That's all it is. It's focusing on what matters most and how to get at them. But it is not commonly applied, and the reason that the tenants are not commonly applied in my experience is that they are hard. They are really hard.

They force people to look at facts that you can no longer ignore, and those facts demand that you take action and you actually have to look at those facts and make a decision. You have to look at them and say, am I willing to keep 1 million tons of capacity that doesn't earn money, that has a $300 million capital call? Am I willing to do that?

And when businesses don't look at things in that disaggregated fashion, it's very easy to make an argument, well, I have an export business and I sell to the export business and I need excess capacity. And you create these stories in your mind about why [ph] you ought (00:12:46) to do these things, when you get rid of those stories and you just look at economics and you go, hmm, through a cycle, it doesn't earn its cost of capital. Why are we keeping it?

Why are we going to spend $300 million when we can spend that money down the road at our Riverdale Mill and build a lightweight paper machine that's going to earn a 20% return on capital [indiscernible] (00:13:06) I'm putting $300 million-plus into something that's not going to return it. So, it forces you to really look honestly at things, but then you've got to catalyze people to change.

And we've had a number of catalysts come our way, right? Whether it was people who had expressed some interest in potentially buying the company, the poor performance that had existed for a long period of time, there are lots of catalysts, but you got to get people to understand that it's in their best interest to win. And so you got to start putting points on the board.

And I think in North America, those points have come on the board. I was just talking to an investor a moment ago who is out in our Atlanta complex last week, I think it was, we had a bunch of analysts and seeing that just immense difference in Atlanta that has happened in just under a year. And once you start getting that kind of momentum, people want to be – they want to be part of it, right? They want to be part of that momentum.

So, I'm excited about that. I'm excited to get that same momentum in Europe. So, the changes is going well. Yeah. Look, turnarounds are tough. Turnarounds are not for the meek. That's for sure. I feel very fortunate that I got the opportunity to do this at this stage of life where I've been a CEO for a dozen years beforehand, and I'm doing this for very different reasons than first time around being CEO.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Very good. The divestitures, just take us through what's been happening at the company?

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

A

Yeah. So, we've done a whole bunch of small divestitures that you guys don't see, a whole bunch of assets that we have sold and exited things that just frankly were not central to the focus of the organization. And then the biggest piece is the Global Cellulose Fiber (sic) [Global Cellulose Fibers] (00:14:45) business, or GCF, as we call it, that we're in the final stages of that, just we're down to the basics of regulatory approval, right, just getting the last little pieces of it. So, sometime, our goal had been by the end of the year, I think we still have a shot at that. If we – unfortunately we can't make the regulators move too much faster. We can do the best we can. But I feel confident we'll get that done soon.

Ghansham Panjabi Q

Analyst, Robert W. Baird & Co., Inc.

And, Andy, stranded costs and so on.

Andrew K. Silvernail A

Chairman & Chief Executive Officer, International Paper Co.

Yeah. There's about $60 million of stranded cost. We talked about that. One of the problems and I really appreciate having been a long time ago an equity analyst in your guys' shoes, one of the issues when you go through something like this, a transformation, is it's just muddy, right? As you're following, looking at the data, it's just messy. It's like, okay, well, accelerated depreciation, how much and what are the real earnings look like, how does this – and then we're investing so aggressively back in the business, what are the real cash flows, sustainable cash flows of the business, all those things.

And so as those things start to clear themselves out, but one of those is around stranded cost. And so what it did was it made the GCF business look like it was super profitable in the third quarter and then it brought down the other pieces [indiscernible] (00:15:59) it's not $60 million of stranded cost, it's covered in a TSA or a Transition Services Agreement that we'll have in place and then we'll take it out of the organization. But that will be done over the next year.

Ghansham Panjabi Q

Analyst, Robert W. Baird & Co., Inc.

Okay. DS Smith, obviously, you mentioned Europe being tougher.

Andrew K. Silvernail A

Chairman & Chief Executive Officer, International Paper Co.

Yeah.

Ghansham Panjabi Q

Analyst, Robert W. Baird & Co., Inc.

That's true for most companies that I cover.

Andrew K. Silvernail A

Chairman & Chief Executive Officer, International Paper Co.

Yeah.

Ghansham Panjabi Q

Analyst, Robert W. Baird & Co., Inc.

And what about asset quality positioning? Where are you in terms of implementing 80/20, sort of...

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

...in that asset base?

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

A

So, asset quality front end on, on the box plant side, what I would say is most of the box plant system is actually in really good shape. It did not have the systemic underinvestment that the North American box plant system did. That being said, it's a little bit different that – what I just said holds true when you're around most of the metro areas. And then as you get into what I'll call kind of singular assets that are in more distributed areas, that tends to be less true and it tends to be less true because the economics aren't as attractive.

So, that spiral of reinvestment like is it a positive or is it negative, you get some of that. And so we have a little bit of that, but generally the box plant assets have been well invested in. The mill system construct is very different than the North American mill construct. About 60% of what we make for paper, we consume ourselves and then we buy about 40% of our own paper. So, it's very different in the US. In the US, we are 100% integrated from a paper perspective.

And then we have – so about 40% of the paper that we make goes out into the open market, into things that are not in the box business for us. And so the work that we're doing and the things that we're really looking at, our integration rates, see through return on capital, just kind of how you think across the entire system and then strategic versus non-strategic assets.

Again, the mill system is well invested in, but where we sit on the cost curve is not as advantageous as we are in the US. In the US, you'd make the argument as a whole, we're certainly in the top third, maybe even the top quartile of our – in terms of performance position in the US. We're more in the middle in Europe, but a lot of that has to do with, what I'll call, the non-strategic side of the mill system. So, the parts that are in the box system are more aligned, and that's where investment has got to go to drive down in terms of a total cost position.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. You said – I think you said 10% cut in North American converting capacity, right?

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

A

Well, we took out – I should say we took out 10% of the – we've taken out a little bit more than 10% of the box plants. We actually haven't cut capacity, which is the interesting part, because we have improved overall capacity...

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Got you.

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

A

...capability throughout the rest of the system.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Optimization.

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

So, what have you done in Europe?

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

A

So, so far, we have announced a number of things in the UK and a number of other countries to go through the process.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Process.

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

A

So, we have not been specific about numbers like that because we really can't be at this stage.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay.

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

If we switch to the operating conditions by region, what changed in North America this year relative to your plan?

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

A

Well, yeah. You always want to avoid getting yourself in trouble in these things. But frankly, when the whole tariff discussion started, you just saw an absolute tick down in the market. So, when the first noise of it started before Liberation Day was announced, you saw it in our numbers, we saw a tick down. And then after Liberation Day, you saw another major tick down. So, the correlation between the two is undeniable and I think that's just reality.

If you look at the major packaged goods companies and you look at their volume, it looks exactly like what's happened there. And so I think a part of it is pressure on the average consumer, right? So, as we see the stock market boom and we see all the kind of headline numbers, I think we all know that the reality is the average consumer or even the average-plus consumer is not faring very well right now. You're seeing them trade down.

You're seeing – there was a great article in the journal last week or two weeks ago around consumers and how they're stretching out their use of goods. And then while we don't send our goods across borders, the things that go across borders that we – that are packed in the US or packed in Europe that are crossing over, that velocity has come down as we all know pretty dramatically.

So, look, I am hopeful that a bunch of the structural issues that are holding the markets down, but we can't bank on that because if you look in the US and you say we got a really good news story in the US with a bunch of headwinds that are actually enormous. So, you think about that, you think with the trade and tariffs, you think about where housing is and housing accounts for somewhere between 10% and 20% of all packaging. So, it flows through that portion of it.

So, you think about what's happened with housing, if you think about the impact of trade and tariffs and then if you look at my old world from IDEX, the industrial world, which has really been in an industrial recession here for a while, right? You're just starting to see positive comps in terms of year-over-year orders in that world. Those three things, I actually – while they've been painful, actually make me really excited about what's going to happen in the US because I see all of those as tailwinds as we move forward at some point. When they happen? I don't know and I think – and they're all interrelated.

Ghansham Panjabi Q

Analyst, Robert W. Baird & Co., Inc.

Sure.

Andrew K. Silvernail A

Chairman & Chief Executive Officer, International Paper Co.

But it makes – it gives me a very positive outlook in the US. In Europe, I think we have to face the fact that it's just going to be longer. It just is. And because the things that you're dealing with are things that you absolutely have no control and the markets can influence, but whether you're dealing with trade and tariffs, don't know, the war in Ukraine, god, someone tell me, I have no idea. Those are things that are hard to get your head around.

And so, with the structural overcapacity in Europe, as those things have come into play, that's what we're dealing with. The good news in Europe, if you want to say, hey, where is the good news? Our positioning is excellent, right. So, our competitive positioning is excellent, number one, which I think is great. Our ability to take cost out, it takes longer and it's more expensive in Europe, but you still love the ROI. It's not a 100% ROI like you have in the US, but it's still a 50% ROI.

And I think all of us would take a 50% ROI any day, but you got to go through it and it just takes time. And so I feel really good about how those place – how those things play out in terms of the positioning of Europe. The other part is, look, the bottom quartile in Europe, in terms of cost position, they are under cash cost at this stage, right. You're now seeing people who are radically cutting capital, doing shift shutdowns, all the things to delay actually closing things. You're seeing all those things happen.

I am not naïve enough to believe that there are going to be mass closures in Europe. I don't believe that. There are too many forces, family-owned, state sponsorship, you name it, that will hold on longer than anybody wants it to. And that – I think we should face that reality. And frankly, anyone who's waiting for the market in the US or in Europe to bail you out, I just think that's a mistake and I think you got to control what you can control.

Ghansham Panjabi Q

Analyst, Robert W. Baird & Co., Inc.

You haven't given 2026 guidance yet, right?

Andrew K. Silvernail A

Chairman & Chief Executive Officer, International Paper Co.

No.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

You can change that if you'd like.

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

A

Right. Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

But you did talk about a $600 million sort of...

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

...EBITDA improvement. Can you just expand on that?

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

A

Yeah. Let me walk through it. So, what we did was obviously we talked about finishing this year and we talked about 2027 and just – and we really debated whether or not we wanted to talk specifically about 2026 guidance and we decided to not go all the way with it for a couple of reasons. One of the biggest ones is there are a number of things that we know are going to change between now and when we have fourth quarter announcements and so – the fourth quarter earnings.

So, we thought, boy, it's kind of – there's no sense in doing that and let's be sensible about that. And so what we did was we talked about what we know is in the bag, so to speak, that has been executed and is rolling over into next year. And that's about $600 million worth of benefits in total. So, that kind of gets you to about $3.6 billion.

Now, you're going to have inflation. So, you're going to have kind of $200 million, $300 million of inflation. So, your starting point, call your starting point $3.3 billion. And we believe that we can get to $5 billion by 2027. And so what we've talked about is what's that bridge, so how do you think about that bridge?

Well, I talked about $300 million of inflation, you're going to have another $300 million in the following year, so call that in the neighborhood of $600 million of inflation. So, where do you find the rest of it? Where does that all come from? You've got a little over – you got about $1.1 billion of cost out that we've targeted from here through – to impact through 2027. That's probably 60/40, 65/35 US versus Europe in terms of that cost coming out. That's structural cost and it's productivity. It's really a mix of those two things.

We have an assumption that the US will get to what we believe is updated mid-cycle pricing, which is call it somewhere between $20 a ton and $40 a ton. So, call that – just pick a middle, call it $300 million, and another couple hundred million in pricing in Europe, which is way down on its historical basis. So, call it plus or minus about $0.5 billion or maybe slightly more in terms of pricing.

You've got about another $0.5 billion that comes out of just organic growth. So, if I think about organic growth in the US, we think the US market next year is soft. We think that's a flattish market in terms of volume and we think we'll grow a couple of points above that. We think Europe is probably [ph] one to two points (00:26:04). I think that's a pretty good number. And those two things combined, you kind of compound that over a couple of years, that's worth about $0.5 billion and then about a little over $1 billion in cost out.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. The targets that you changed as per your 3Q slide deck on 2027, that was just the GCF divestiture or...

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

A

No, no. So, we had – when you really looked at 2027 and you look at the market forces, so we've lost, as I heard – I talked about it in the pieces, but in total, it's about $0.5 billion – actually it's north of $0.5 billion of profit impact this year, right. So, we had guided $3.1 billion to $3.6 billion and – for the packaging business itself in terms of EBITDA back in March and we're going to come in roughly around $3 billion and we believe we gave that and – as we talked about the fourth quarter, with a $0.5 billion headwind of the market difference. And so the reality is you're not going to make that up, right? So, we had guided $5.5 billion to $6 billion in 2027. We talked about $5 billion, because it's going to take time to make up that loss from this year.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. All right. In terms of the earnings profile, obviously last year, $1.13 or so, just reading off consensus numbers; this year about $0.58; and then next year, the Street has a nice little uptick, I assume that's cost related. Right?

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

A

Yeah. Well, it's everything I just walked you through.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Okay. All right.

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

In terms of the stock price, obviously it's been a tough year for the stock.

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

When I hosted you last year, I brought up the point that there's been about 50% draw downs in your stock and it's almost back to that level versus the peak of last year.

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

What is the perfect operating environment for IP?

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

A

Perfect operating environment? A relative – that kind of classic Goldilocks benign operating environment is a place where that works really well for us, in that kind of 1% to 1.5% US volume growth, Europe is going to be a little bit better because they're much further ahead on materials conversion, moving from plastics to fibers, and so that trend is going to continue and accelerate in Europe. So, that will probably be a little bit better over time. That's a great environment.

In an environment like that, you're able to get volume growth. It's not so hot that the market gets out of control, right, and you're able to drive productivity as you reinvest back into the business. In that kind of environment, this is a business that can grow, call it, a point on – or a 1.5 point on the basis when a little bit of market share, historically this is a business that's done a great job of passing through inflation, done a terrific job of doing that. And then if you can drive a point of productivity, that turns into, if you just kind of think about that math, that turns into high-single digit EBITDA growth over time and then the ability to really drive return on capital through that, that's a great environment to be in.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Perfect. In the last minute or so, we're asking all our companies about artificial intelligence...

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

A

Yeah.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

...implementation and I get the irony about packaging and materials analysts asking that question, but...

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

A

No.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

...anything you'd like to share on that front.

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

A

Yeah. It's actually fantastic. Look, I think of it a lot like when I was talking about being an analyst, right. That was the Internet boom and I graduated from business school as everything was kind of hot as hell and then it blew up over two years and everyone said it was going to change the world. And they were right. It just took longer than they thought. And I think the difference here is the practical application is happening way faster than people thought two or three years ago.

And so whether you see it in market intelligence, in pricing, in variation reduction, in machinery, supply chain analytics, service and support, I mean, literally, there is not a place that isn't showing up in one way or another. I think the key that nobody has proven yet is just how much real productivity is going to show up on the bottom line.

I'm a believer that it will be real. I don't think it's going to be 10% and 20% and numbers like that. I think what it's going to allow you to do is get back on a track of a point or two of productivity every year. And I mean, if you go back and you really think about huge value creation is your ability to grow above market a little bit and your ability to drive a little bit of net productivity. That math is explosive in terms of earnings growth. That's where it's going to come into play.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Andy, we are out of time.

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

Thank you.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Thank you very much.

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

So good to see you.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Good to see as well.

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

Appreciate it.