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International Paper Co. (IP)

Jefferies Industrials Conference

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CORPORATE PARTICIPANTS

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

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Philip Ng
Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Philip Ng
Analyst, Jefferies LLC

All right, guys. I'm Phil Ng, Jefferies, Paper and Packaging Analyst. Bright and early to kick things off. We're delighted to have the International Paper Company team with us. We got Andy Silvernail, obviously CEO of the company, but also in the audience we got Lance, CFO from Mandi and Josh on the air side of things.

QUESTION AND ANSWER SECTION

Philip Ng
Analyst, Jefferies LLC

Q

Well, Andy, it's a crazy world out there. It would be helpful. Just kind of kick things off here what you – let us know what you're seeing.

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

A

Yeah, well, thank you. Thank you, Phil, for having us. Thank you all for all being here. And it's – I think this is the third time we've been back since I'm CEO of IP, which goes fast so.

Philip Ng
Analyst, Jefferies LLC

Q

It's a pleasure.

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

A

So thank you. I think this is a great conference. I guess I'd start off with a few things. One, just kind of talking about a little bit about the macro, which we all are bathed in every single day. But more importantly, the goal of where we're headed and very much so kind of what we're doing to control our own destiny in this kind of crazy

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world. So, obviously the world that we're living in, this sitting, I have to think of is a few things. One is relative to the forces of trade, tariffs and conflict on both the demand side and inflation side. We all know those challenges that are out there and they're undeniable. At the same time, what it does is it sets a context for how you can compete.

And that to me is really the most important thing, is whatever given period of time when the macro gets distorted for whatever reason, throughout my career, the way I have dealt with that is you grab on to those things that you can absolutely control and how do you drive value and how do you drive competitive advantage, how do you drive a better position over time relative to that and we don't know what's going to happen relative to the business. Obviously, in our world as we kind of see that lower end consumer struggling, that's an issue relative to overall packaging demand.

And then on the inflationary side, energy obviously is the biggest piece. We're most exposed in Europe when it comes to that. We produce 70% of our own energy in the US, although we do have exposure to diesel, then obviously with diesel where it is, the number is about $95 million per dollar a gallon of diesel, if you kind of think about that in terms of the impact. So the inflationary pressures are there. Obviously, pricing has moved to deal with the vast majority of that. What we've seen in the last 18 months or so is really a balancing of inflation being covered by price. And so the incremental margin that you'd like to see from that has really been pushed into 2027, as our efforts to drive down our cost structure, which have been incredibly aggressive, have offset an awful lot of that. And so we all have obviously seen over the last couple of years a pretty substantial incremental margin improvement on a dollar basis in and on a rate basis.

And we expect to see that as you move into the third and the fourth quarter and very much so into next year. So really grabbing on to those controllables. The first around that is really just the absolute cost structure. So I think many of you who know International Paper well, the last two years we've taken out an enormous number of latent assets, of unproductive assets, and we've taken that those closures out. We've been reinvested very aggressively back into our mill and our converting systems to drive productivity. And we're certainly seeing the gains in that and we'll continue to do that. Our belief is that winning is really comes down to three interconnected parts.

The first one is having that best cost position. And so driving that best cost position, which doesn't mean a low price position, absolutely, does not mean that, what it means is our ability to invest at any time in the cycle. So any time to drive investment back into the business, to continue to lower that cost position and frankly, to reinvest back into the front end of the business, what we call the customer experience. So how they experience us in terms of reliability, quality, service, innovation, as you see what customers care about those things are not only table stakes, they really drive the willingness to pay and switching costs. And so huge investment has gone back into the business around that and we've seen very substantial moves in terms of where we stand in customer satisfaction rankings. And we've moved very, very nicely as we've done that in North America.

And then on the relative market share side, it's important for us to build density in the markets that we deeply care about. And those are local markets kind of by MSA per se. And in terms of the overall network strategy on converting and in our mill systems in North America. So very happy with the progress there that we're driving in the face of that tough macro.

And then in Europe, right, this is really all about two things, right now. The first one is the restructuring that's happening in Europe. So you've seen the information, we're going to close upwards of 40 facilities in total and about 4,000 people will exit the organization here since the start of that, which is a very aggressive restructuring in Europe. And I think absolutely necessary. And that – and while anyone who's been through that knows that those things don't go without their bumps, it's gone very well. And we're getting the costs out of the system that

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we need to. And that will be very important for the long-term value creation of that company that we're going to spin out here over the next handful of months.

And so we're excited about that spin, that is on track, really in terms of the normal milestones and pathways to that process. They're moving along very well. We will certainly be within that 12 to 15-month timeframe that we talked about in the past, and no real major updates around that, except the process of moving forward. You'll see that with Tim and Vincent are here, the future CEO and CFO, they're here presenting at the conference to socialize that even more, so they're here doing that. So hopefully that gives some confidence that this process is moving forward as we had hoped.

So the last thing I'd leave you with before I turn it to Phil is what we'll become. And the goal is to become for International Paper to be the largest scaled, most present player in the North American market for packaging, for paper-based packaging. And that's a great place to be. We like that business. The noise that has been around the business in terms of restructuring, in terms of asset sales, that will come to a close. We will start really driving the business on a normalized basis around those three pillars of strategy, driving that cost position via productivity, reinvest back into the front end of the business around organic growth and really around building relative market share in those markets that we care about. So we're excited to get there. It's been a long journey and a fast journey, and we're very proud of what we've done.

And so with that, Phil I'll turn it to you.

Philip Ng
Analyst, Jefferies LLC

Q

Great. I think it's pretty well documented in terms of the investments you've made on footprint, closing high-cost capacity. But on the commercial side, at least the dinner we hosted with you last night was an area that you talked about. You're making investments and how you're trying to further realign incentive comps to enforce proper behavior. Can you expand on that a little bit? And what you guys have done thus far, some of the opportunities going forward and how you want to rejigger incentive comp even more?

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

A

Yeah. So when I joined the business, my observation was that we very much had a sales team that was kind of the classic gatherers, not hunters. That's the way I would put that in terms of incentive comp, how we had built people into those organizations, the tools that they had were really around trying to sustain or maintain. They weren't about profitable growth going forward. So a few things that we've changed pretty aggressively.

Incentive compensation has moved from being a very heavily guaranteed model to a very heavily weighted incentive-based model. That's a very important change. We've changed out a huge number of our sales force and added significantly to that sales force to the tune of about 40%. And we have started to give them tools that they didn't necessarily have, nothing that's groundbreaking in our world. But in terms of tools around discipline, around pipelining and pricing, and understanding that market segmentation. In 80/20, the methodology plays a very important role in that segmentation and understanding how you compensate and how you drive into the business, and we'll continue to do that. I think that modernization, certainly the utilization of data tools, AI-driven data tools, are incredibly important on the commercial side of the business, from pricing to design, to configurations, to demand planning, you name that, to support. There are incredible tools that we're investing in that are certainly moving that forward.

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So I feel really good about that. And the important part there, Phil, is that over the long-term, we know that the business, we understand kind of what the slope of the line in terms of volume growth is going to be. And the variables are going to be our ability to take market share and our ability to capture price as tightly as we possibly can. So those are really the investments that we're making on the front end.

Philip Ng
Analyst, Jefferies LLC

Q

Okay. Let's focus on some short-term stuff, and I promise we'll drill back on bigger picture, longer-term thoughts. But certainly like from a macro standpoint the headlines, still pretty choppy. Rates moving higher, oil prices, diesel prices. Curious to hear what you're seeing out there from a demand standpoint. I know you reined in your outlook in terms of industry trends...

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

A

Yeah

Philip Ng
Analyst, Jefferies LLC

Q

...in the last quarter. How are trends tracked July, August, whether it's the North American market or Europe?

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

A

Yeah. So if you – I mean obviously, all the news that we all read and see and we dig into around consumer sentiment in the US and Europe have been hit very hard the last two years relative to trade, to inflation, to the cost of energy. We've all seen that news.

And in our estimation, over two-and-a-half years, it's cost about 5 points of aggregate demand. That's my point of view on that. And I think demand will be muted going into 2027 and throughout 2027, assuming that we don't get a major relief from some of these pressures. And so if you just kind of think of it in the broad scale of the K-shaped economy that we all talk about, that bottom of that K is being squeezed, right? They're being squeezed in terms of their available spending, and they're having to make life choices that the people that I grew up with in a small town in Maine, and I went back this summer, and they're having a very different conversation than the conversations that we are having in this room around gas in my truck, buy a shirt. Those are not conversations that this group has, but that is what most – those are the conversations most people have.

And so we are seeing that the demand. What I would say is it's steady, but it's soft, right? It's softer in Europe than it is in the US, so we have to be mindful of that. And that is why we've been so aggressive around cost structure, right? So the ability to take that out, to accelerate that.

And so I feel like we've gotten the right balance there, but that is a wild card as I kind of look forward. Our expectation is that the balance of this year is kind of flattish in North America. I think people saw the European consumer spending numbers that came out here in July, and they were pretty weak around retail spending and things like that, and we saw that certainly in our demand patterns. And so we expect it to be kind of squishy until we get some relief from some of these external forces. So that just comes back again and again to take control of what you can control. And that is really around the cost structure, our ability to take market share, and our ability to get very efficient with the use of capital.

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Philip Ng
Analyst, Jefferies LLC

Q

Got you. But this does not sound too different from what you kind of outlooked post 2Q, or are you seeing a downdraft in activity?

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

A

Yeah. There are two things. The general answer is yes, it's very consistent.

Philip Ng
Analyst, Jefferies LLC

Q

Okay.

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

A

The two places that I'd say are net negatives are the consumer spending numbers that we're seeing out of Europe.

Philip Ng
Analyst, Jefferies LLC

Q

Okay.

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

A

That's negative. And then obviously what we've seen in the world of fruits and vegetables...

Philip Ng
Analyst, Jefferies LLC

Q

Okay

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

A

...coming out of the West Coast. Those are things that are going to be, on a trend basis, they'll look negative. There's no doubt about it.

Philip Ng
Analyst, Jefferies LLC

Q

Sure.

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

A

But I think from the perspective of the long-term trend, I don't know that they've changed that very much.

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Philip Ng
Analyst, Jefferies LLC

Q

Okay. Well, in North America at least, while demand feels pretty squishy, but as you pointed out, steady, supply still remains pretty tight from what I understand, especially with Pine Hill down, but it is up and running now. But help us kind of think through what you're seeing in the marketplace right now in North America and how you kind of see that supply dynamic playing out the rest of the year.

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

A

Yeah. So the market is tight. We've gone from – as you know, from being very long in terms of our paper position two, two-and-a-half years ago, to being modestly short in our paper position because of the capacity, the high cost, basically under cost of capital assets that we had.

And so we've changed that dynamic for ourselves pretty significantly. And obviously, given our footprint, it's impacted the industry. And so it is tight, and I expect it will be tight. And I think that's a good thing because I think the industry, each company on their own, having the discipline to make money is very important. And I am not sure that the companies had that discipline in the past. I think that is a good thing across the board.

And so from our perspective, what you should expect to see from us on an ongoing basis is being really around a pretty tight range around being long and short paper. I don't see that – I don't see us being wildly on one end or the other into the future. I really think that that balance is important. I think it's what drives really good discipline, operating discipline in the company. I think when you have excess capacity, it drives an inherent, I hate to use the term, it is kind of aggressive, but laziness that is not good. So having constraints, and it drives innovation, it drives productivity.

And in this next phase, post-separation, one of the most important things is going to be our ability to drive year in and year out productivity in this business. The ability to drive net productivity in terms of human capital and in terms of assets, that's going to be very important in the overall equation.

And so I like where we are in terms of getting the asset base to the point where that constraint is natural and it's driving that. And then the investments that we've been making are starting to really layer in now. So if you recall, a couple of years ago, we announced a major change in our capital philosophy where we effectively doubled the overall capital spending in North America. And it's more than just doubled the spending because it's on fewer assets. So the dollars are twice as much, but the assets are fewer. So the dollars per asset has actually gone up substantially.

Some of that is eliminating a whole bunch of – it's kind of big holes that we dug over time in terms of poor assets. We've exited those assets, whether they're mills or they're box plants. So those – that giant sucking sound towards money that did not drive a return, we've closed that off, which is great. And we've made reinvestments back into places like Mansfield, like Riverdale, buying of NORPAC, the acquisition of the Dover box plant. All of those things are allowing us to move capital from high-cost, low-return assets and segments of the market to high-return, much lower cost segments of the market that we really like.

So we've seen that asset shift. But really importantly, what you will see from International Paper is incredible asset discipline and investment discipline. You're going to see that. We are going to push our cost curve constantly to the right where we're moving out of high-cost assets and into lower cost assets. And that drives that best cost position, which allows us to reinvest on the front end of the business.

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Philip Ng
Analyst, Jefferies LLC

Q

That's a perfect segue, Andy that was my next question. That strategy just makes perfect sense, medium, longer term, but it's been choppy right outside the macro...

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

A

Yeah.

Philip Ng
Analyst, Jefferies LLC

Q

...the tariffs, the war and all this inflation. As you take out that cost out and ramp up new capacity, you don't necessarily get that tailwind from investments. Right. So it's been really hard to forecast model and it's just been noisy. When we exit. I believe a lot of the startup costs you're going to incur this year kind of help us think through as you position yourself for 2027, will a lot of the pain be in 2026 and could you start seeing some points on the board with these investments you made that you highlighted?

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

A

Well, I think the bottom line is we're seeing big point on the board already. The issue is exactly what you pointed out, Phil, which is this macro noise around demand and inflation. At the end of the day, if you really kind of do the math of it, inflation and pricing have effectively offset themselves over the last two years. Right. So there's kind of a no movement. And so if you look at the $700 million move in profitability and EBITDA in North America, that's effectively all cost out, right? If you look at that, those numbers when you balance off the inflation. So I feel really good about that movement there. How things layer in? So we've gone through kind of a really, really aggressive set of two years of asset sales, asset closures, reinvestment. To your point, the reinvestment is just starting to layer in now.

Philip Ng
Analyst, Jefferies LLC

Q

Okay.

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

A

Right? So well, I'll give you an example, I was out in Phoenix here earlier this year. They're putting in a new converter this year. Right? So that's a that's a business that in and of itself is going to radically change the productivity profile and the responsiveness profile of that that asset, that business in that region, which is an important region. And that's one of 80 examples across the company. So if you look across our fleet of facilities, 80 different facilities are going to get some kind of major asset investment or has been over the last two years and well into the future. So it's a major layering and we're just starting to see the impacts of that now. So what you'll experience is and I think hopefully investors will like this a lot, we're going to see the volatility of stuff that we interact and we control that amount of change is just going to radically slow down, right? Because asset sales and asset closures and things like that, those big things are coming to an end. And so as we become a singular North American packaging entity, my goal is to take this variability out, right? I can't take the market variability out, but I certainly can take our variability out and because of our size we can then influence the market variability. And so I think those are really important things that are going to happen here as we go into 2027 post-separation.

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Philip Ng
Analyst, Jefferies LLC

Q

Okay. All right looking forward to 2027 cleaner year hopefully. In terms of inflation. I mean, you kind of highlighted earlier, Andy, energy prices in Europe, diesel prices in the US I think your framework you guys gave from a guidance standpoint assume margins would improve in fourth quarter with that price cost dynamic. I mean, diesel prices have shot up. Is that still a good framework in terms of things that you can control today?

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

A

Yeah, I really like – if you look at North America, even with the volatility, I really like how our execution is playing out in terms of our ability to get that cost out, deal with the volatility. Again in the US, our exposure to the energy volatility that we're all experiencing is really around diesel and how that factors into transportation. So I think Lance, which you quoted was a $1 diesel price is about $95 million of headwind – or tailwind, right, on an annualized basis if it goes one way or the other. So how much is diesel up in the last, six months, $2, $2, somewhere in that range. So you're talking $150 million to $200 million of headwind just in diesel in that.

But that being said, that's pretty isolated because in the US, we make 70% of our own power and most of the rest of it comes from natural gas. And so in terms of energy inflation in of itself in North America, it's really the exposure to diesel. I think that's a fair way to put that. Other parts of inflation are still there, though, right. So we've seen what's happened OCC and how that's moved and obviously we all know the variability in OCC over time. We do see that gliding down some now, which is good, but so that volatility and variability, it's not a small number. It can be a big number. And literally, if you look at this year alone, you're talking about, what, $400 million or $500 million swing in this year alone.

And so last night at dinner, I was asked what I thought the exposure was into 2027 around inflation. I said, well, first of all, you got to pick your pieces. But if I pick the bookends, I can see $400 million on one way or the other, depending upon the how dramatic you want to pick your inflation mixes and then you got to think about what will happen to price kind of from there.

Europe is a little different, right. So there's a lot less volatility in the US Europe is different. It's different because you have a lot more energy volatility. Right. The natural gas cost and the volatility in of natural gas has been higher. It's really moved aggressively in the last month or so. And that's just kind of a reality. And so you had the volatility of the energy side that we have to push against. And pricing, as you have seen, has been moving very positively in the market. That's a good thing. But the lag time is longer. It takes longer from moving from paper pricing to how it hits box pricing in Europe. We very much expect to see that start to play through in the fourth quarter or into next year. So those are really very positive things. So that's some tailwind. But you definitely have the headwind of energy volatility and how that's impacting consumer spending. So more volatility in Europe, which means we're going even more aggressive around cost and the US some volatility, but we really like how things are moving along in terms of our ability to execute.

Philip Ng
Analyst, Jefferies LLC

Q

And that $400 million to $500 million variability number you're talking about Andy. Is that a North America phenomenon or North America and Europe combined?

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

A

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I'm just talking North America, as I think about the bookends of how you can hit the P&L if you kind of take that midpoint, I could see $200 million on either side of that midpoint. Right? So that's how I kind of think about that volatility of that midpoint. In Europe, it's just – honestly, it's harder to call because of the volatility of energy prices and on the consumer side. And so the focus in Europe really is basically it's a redo of what we've done in the US, which is get the assets to the right place or get the right kind of assets in the right kind of cost position. Some of you may have seen we announced last week that we're taking down a paper machine in one of our – in Kemsley in the UK. And so that asset structure around there is all about what assets drive attractive return on invested capital and so getting there at the end of the day, DS Smith had really never done an integration of the acquisitions that they've done over the years, and so we're accelerating all those parts. I really like the execution, but you can't do that kind of execution, have it not be messy.

Philip Ng
Analyst, Jefferies LLC

Q

Okay.

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

A

It's impossible.

Philip Ng
Analyst, Jefferies LLC

Q

Inflation is unpredictable Andy as you kind of called that, but with a price increase in the marketplace, assuming we get some traction, is the expectation you'll see a little more of it in 2027, just given the productivity gains plus pricing?

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

A

Well, I think if you're asking the question, is the announced pricing going to have incremental profit impact for 2027? The answer is yes.

Philip Ng
Analyst, Jefferies LLC

Q

Sure.

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

A

Right. If you're asking if I know where pricing is going to go or predict it, no. And so the way I look at it is obviously we have a major carryover from the pricing that's already been announced and published. And we'll wait and see here in September and October what happens to the most recent price increases that were implemented on the first?

Philip Ng
Analyst, Jefferies LLC

Q

Sure.

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

A

But net net, our expectation is that that is going to have – is going to be a major tailwind in 2027.

Philip Ng
Analyst, Jefferies LLC

Q

Okay. That's what I was looking for.

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

A

Yeah.

Philip Ng
Analyst, Jefferies LLC

Q

On the commercial front, service and reliability and quality or three things you have said, they are must as since you've taken on the role, can you expand on that a little bit more and what that kind of impact has had on the commercial side of things? Because we've seen box – your box demand outpaced the market. Is there still room to go as we look out to 2027 and I think you had some business up for bid or you were in the mix for some larger business. So help us kind of think through that.

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

A

Yeah. Yeah, so I think so – so first of all, when you look at the Pareto of what customers care about, it's very clear and it's very consistent that reliability is always number one, right? So we can't shut them down. That's first and foremost. And obviously quality goes hand in hand with that. But reliability, quality service and then you get to you get to price and then innovation comes after that. And so the way to think of it is if you segment out the market, I kind of think at three big segments of the marketplace, you've got the big middle, which is really where we tend to live, right? So you probably 70-ish percent of that marketplace that are large regional or national accounts in North America, that's kind of our sweet spot. Then you've got the hyper local piece of the business that's kind of 20-ish percent of the marketplace. We obviously play there. But that tends to be a much more localized strategy market by market. So Greater New York market, that would be choices around for that strategic business unit, not at the corporate level that we're directing assets and whatnot.

And that's a really heavy cost to serve. It's a higher priced market, but it's a very high cost to serve market returns on capital probably look similar to that big middle. And then the last piece is really that that price seeker market, that's probably 10-ish percent, large customers, they do not have demanding applications and they tend to price seek all the time. And in my perspective of that is that big middle, they really do care about reliability, quality and service and you can't let them down. And it's worth somewhere between 5 and 15 points of premium if you deliver day in and day out, right, because that's what they care about. And the switching cost to pick up a tens of million dollars accounts where you're doing business with dozens or maybe 30 or 40 of our plants and 30 or 40 of our customer plants. That is not an easy – that is not low switching costs. That is pretty high switching costs. And so our desire is to create an environment where we're investing so the customer doesn't have to, they can take their resources and put them other places to drive their ultimate goals.

And so we become a non-issue to them and we become an easy player for them in terms of driving the cost structure down, improving their service and reliability, innovating where it makes sense. And so there's a lot of focus on on that in and of itself. And and that price seeker side of the market. It's not that we won't do business

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with them. It's that we're going to do it on our terms. We're not going to do it because we're chasing incremental volume for what I kind of laughingly call the sugar high, which is really high incremental margins when you get it. But eventually you have to capacitize it. You have to reinvest back in it. And those margins don't look very attractive and so that piece of the business, given what we have chosen to do and what others have chosen to do, is probably has a harder game to play of going and seeking price in places without excess capacity in the marketplace.

And then finally, that question about our ability to grow longer term, as we look into 2027, I feel pretty good about our ability to grow above market. We do have between now and the end of the year, we've got a couple of bigger things that we've been working on that we'll see what that means for ultimately for 2027 and beyond for some of those bigger things. So really no new news around that.

Philip Ng
Analyst, Jefferies LLC

Q

Okay, super. I think you've always talked about net productivity, aspirations of a number and game plan. Talk to us where you are with that journey because you've kind of alluded to the mills having operated as well as you would like, there's money left on the table. So just kind of give us a little more color where you are in that journey.

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

A

Yeah. So I think ultimately, this is a business that has to drive net productivity. And what do I mean by that? I mean the ability of assets and people to drive incremental volume without incremental cost besides the normal kind of inflationary cost that they're going to experience themselves. And that's an equation in our business that works incredibly well. We've blown away in the last couple of years what I think is a sustainable rate, because we've been taking out big chunks of assets and we're going to make big investments. So we'll be well into above our targets that we would have for the next couple of years, because there's just a lot to pick up off the ground, so to speak. But ongoing, we've got to invest year in and year out. And I've been asked the question a lot about what does that CapEx cycle look like? And I want to debunk a couple of things.

Number one, the CapEx that we're in, which is kind of 9%, 9.5% of sales right now, we think that goes on for a couple more years. And then it settles down into about a 7.5% ongoing range, which I think is highly competitive and allows us to take advantage of our scale and our reach in the marketplace. But I think that's really where it sets over a period of time. What's going to happen between now – what's happened and what will happen over the next couple of years is really the modernization of our entire mill fleet and our converting fleet and to really position them to drive significant changes like we've already done. And that step function change, we want again to modernize and then to prepare for that ongoing productivity over time.

Philip Ng
Analyst, Jefferies LLC

Q

Is there a internal target in terms of net productivity, normalization, long-term target?

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

A

There is, but we haven't laid it out for in terms of a framework. But we certainly will do that in the future. But we want to be in a position to drive that consistently year in, year out.

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Philip Ng
Analyst, Jefferies LLC
Q

Okay And where are you in terms of the modernization, in terms of the mills and whatnot, because if you've taken a lot of high costs?

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

You said monetization.

Philip Ng
Analyst, Jefferies LLC
Q

Yeah. Yeah.

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

What do you mean by that?

Philip Ng
Analyst, Jefferies LLC
Q

You talked about investing in the mills and getting it into better spot. So it's modernized. You have an awesome fleet and whatnot.

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

Well modernization.

Philip Ng
Analyst, Jefferies LLC
Q

Yeah modernization.

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

Is it Modernization.

Philip Ng
Analyst, Jefferies LLC
Q

Yeah modernization.

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

Oh. I'm sorry I apologize, Phil. Yeah. I think we're still pretty early innings if you look at the investments that we've made. Obviously, Riverdale was huge. That's ramping very, very nicely now. We've made really substantial gains at Mansfield over the last couple of years. NORPAC is going to be a great place to get very high returns for relatively low dollars and our ability to expand the overall capacity, if we choose to in the in the business and then

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we can understand kind of where our cost continuum is and how do we still take out higher cost parts of the business and invest in lower parts of the business. So I think we're still pretty early stage, Phil.

Philip Ng
Analyst, Jefferies LLC

Q

Okay, great. What about the box side of things? Where are you with that journey?

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

A

So we've in total now, gosh, I want to say it's about 14%, 15% of the assets have been taken out of the system at this stage. And as I mentioned before, the huge number of investments that are going in in terms of the number of plants it's happening. So we're in the midst of that. We'll still have some consolidations here and there. But the easy stuff where we had old assets, too much capacity, that's really gone. And now it's a function of that productivity puzzle. So as you drive productivity, the ability to consolidate the ability to modernize, that will be an ongoing journey.

Philip Ng
Analyst, Jefferies LLC

Q

Okay. The tightness in supply for the mill side is well documented. Any perspective in terms of how the industry set up in terms of box capacity? And it's very local and regional. So any perspective on that front would be helpful and with the cost curve as well, because I think there's parts of the country where capacity is very high costs.

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

A

Yeah, you've got – I mean, at the end of the day, in the converting side of it, it's an incredibly local part of the business. And I think some folks don't understand how local it really is. Importantly, right, a box once it's formed and it lays flat does not ship economically. And so once you pass kind of a 200 mile or 300 mile radius, you really start to eat in dramatically into the profit structure of the business. And so that local nature of the converting business really matters. And so those investments that we're making around building that reliability and quality innovation locally and the ability to service that customer in that is really important because it is such a local business.

That being said, there are pockets of the country that have more capacity, less capacity. And it's not unique to us. It's not unique to anybody. It's really the market itself. And so for us, it's around where do we have density and where do we want to double down our investments? Where do we want to rationalize and drive that cost base more? So it's going to be market by markets. We've outlined about 40 different markets in the US and that's kind of how we manage it is by treating each of them as a business. Those tend to have multiple box plants, so they're going to have anywhere from one to four box plants in one of those local markets. So that's one where we like our competitive position. And like I said before, it's going to be consistent driving our productivity.

Philip Ng
Analyst, Jefferies LLC

Q

There is a view there is just a lot of excess capacity in the box network for the broader industry. Any perspective where we are?

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

A

There are pockets that have too much capacity? The Northeast is an example of that, right? There is too much capacity. There are few others. Like if I were to say like the Dallas market as an example, has too much, but you're starting to see that tighten also generally. So from the actions we've taken, I think from discipline from the market itself, it has not been and will never be as tight as the paper side of the business. Don't expect it to be there it's just it's a lower cost to entry point. The bottleneck point is really around paper and that integrated paper play.

Philip Ng
Analyst, Jefferies LLC

Okay. Well, Andy, this was super helpful. Really appreciate your thoughts as always. Thank you so much.

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

Thank you guys. I appreciate it. Take care.

Philip Ng
Analyst, Jefferies LLC

Thank you so much.

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