



International Paper

80/20 101

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80/20 Strategic Approach

Accelerating Profitable Growth

Intense Focus on Where You Are Going ... Right Resources to Maximize Performance ... and Acceleration



The Origin of 80/20

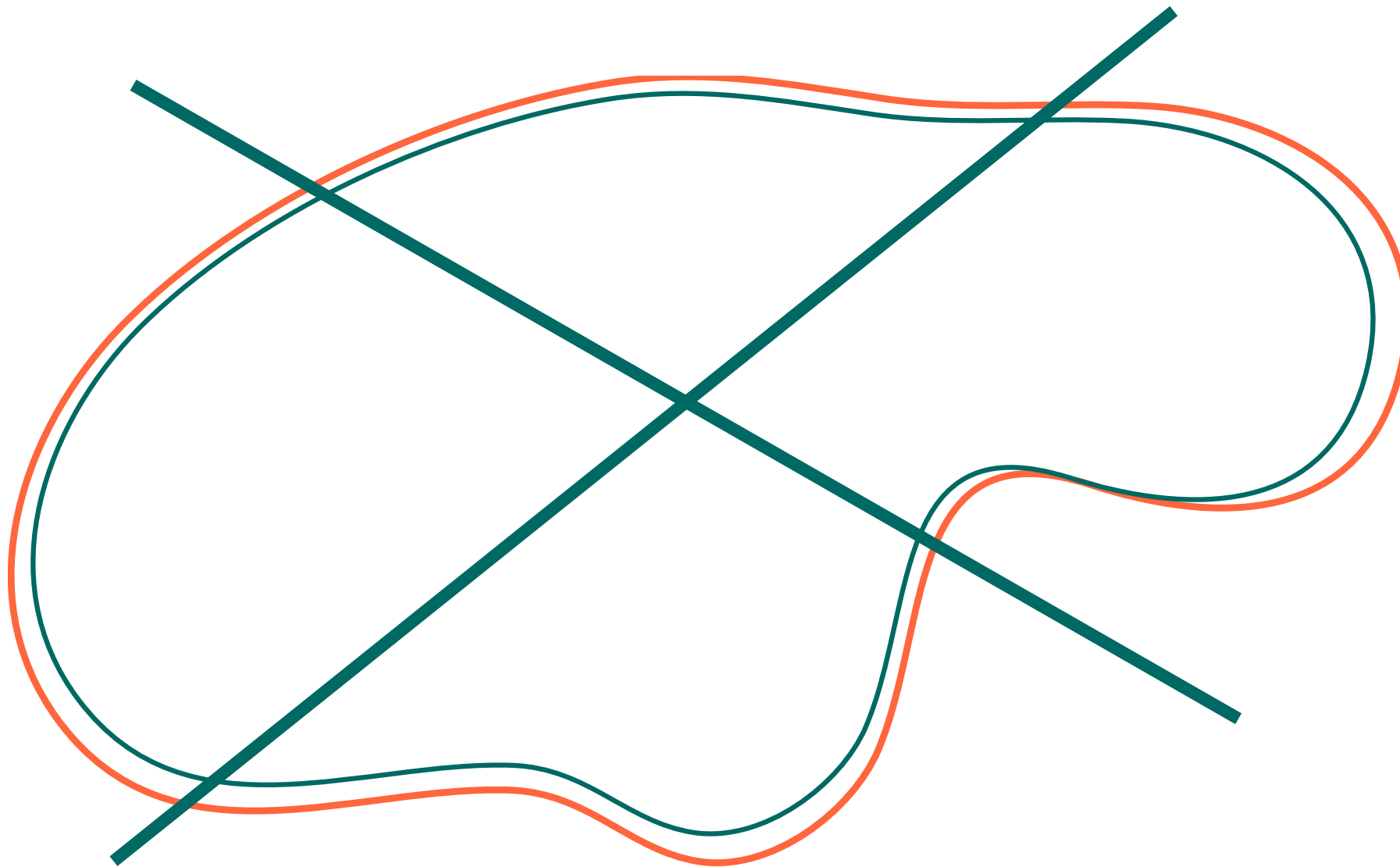
- Discovered in the early 1900s
 - Italian Economist - Vilfredo Pareto
 - Pareto Principle - The Law of Imbalance
- Application to business
 - 1940s Joseph Juran - quality control
 - 1980s ITW
 - 2010s IDEX



What it isn't . . .

- Trendy program or initiative
- Restructuring
- Cost cutting... for the sake of cost cutting
- Getting smaller
- Becoming more generic / one size fits all

Typical Approach to Improvement

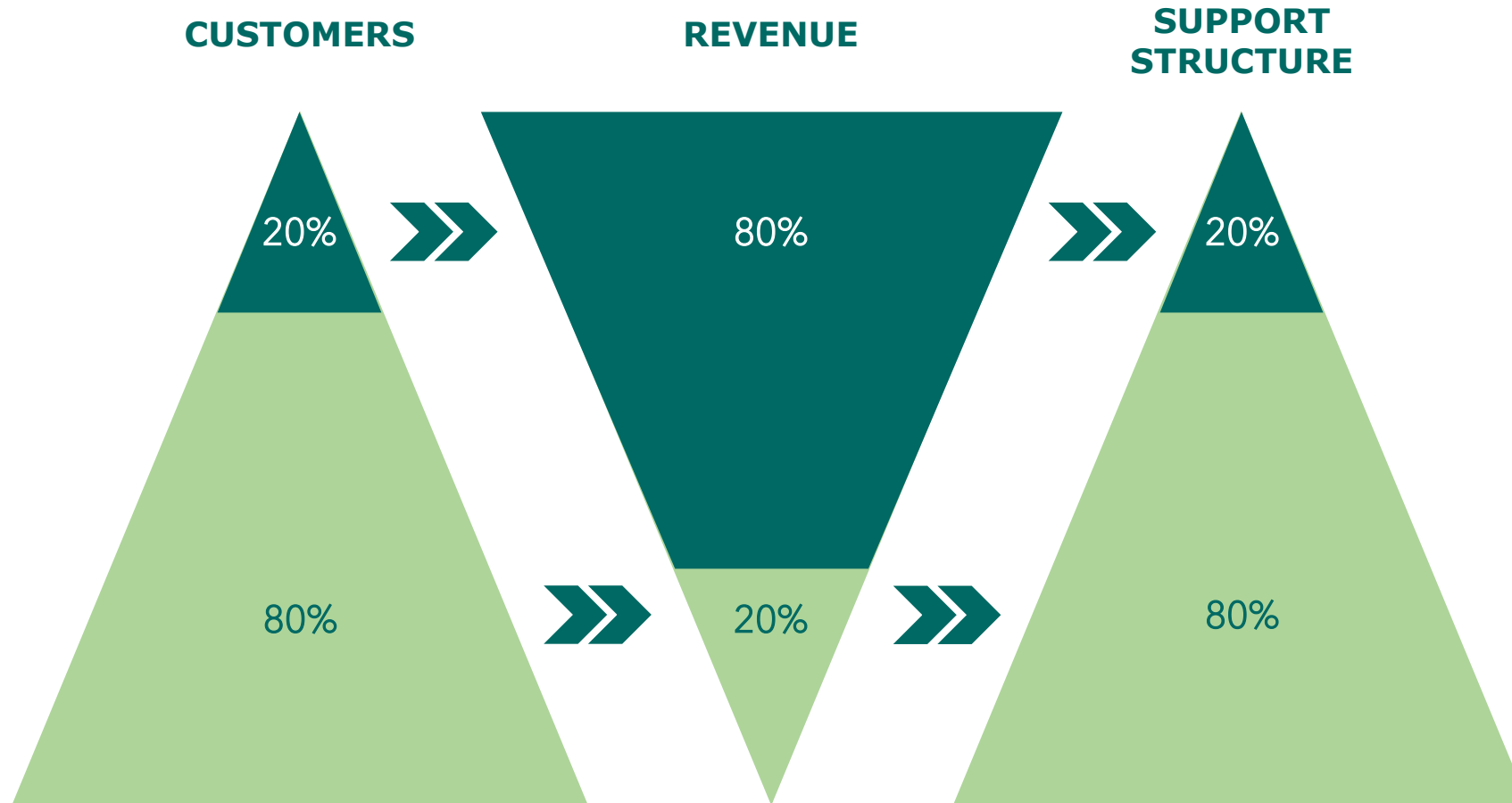


What is 80/20?

- **Data-driven methodology** that identifies the critical few for strategic differentiation
- Mindset that **focuses on key priorities**
- **Alignment of resources** to drive results (cause and effect)

A Differentiated Approach to Winning ...
To Achieve Dramatic Profitable Market Share Growth

Aligning Resources with Opportunity



80/20 Key to Success

TREAT THEM **DIFFERENTLY**



FAIRLY - NOT EQUALLY

80/20

A Proven Approach for Success

IDEX Experience

The Problem

HISTORICAL PERFORMANCE

**1989-2011
+1,200%...
5X MARKET**

2005-2011

**BOTTOM 1/3 OF
PEER GROUP**

**ASSOCIATE
ENGAGEMENT**

50TH PERCENTILE

The Problem

IDEX Experience

Poor Quality Growth + Disengaged Teams

2005 to 2011
CAGR / Δ

Sales	8.4%
OP%	-290 bps
EPS	6.6%
ROI	-400 bps
Engagement	50th %ile

5 YR CAGR

TSR	8.0%
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Root Cause Not Delivering On Commitments

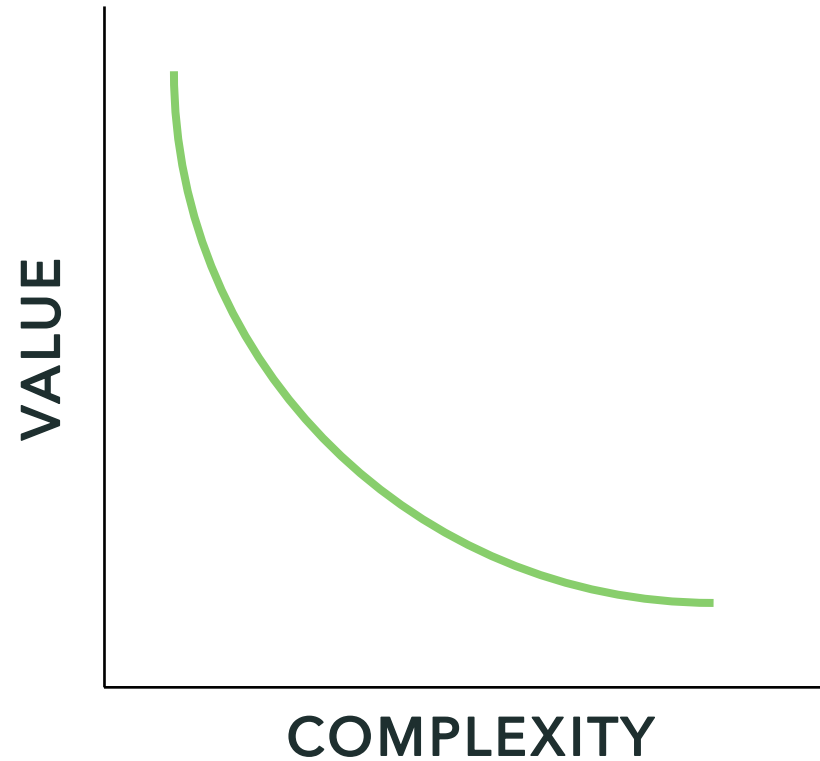
IDEX Experience



**IF ACHIEVED GOALS:
EPS INCREASE OF > 50%
WOULD HAVE BEEN #1 IN PEER GROUP**

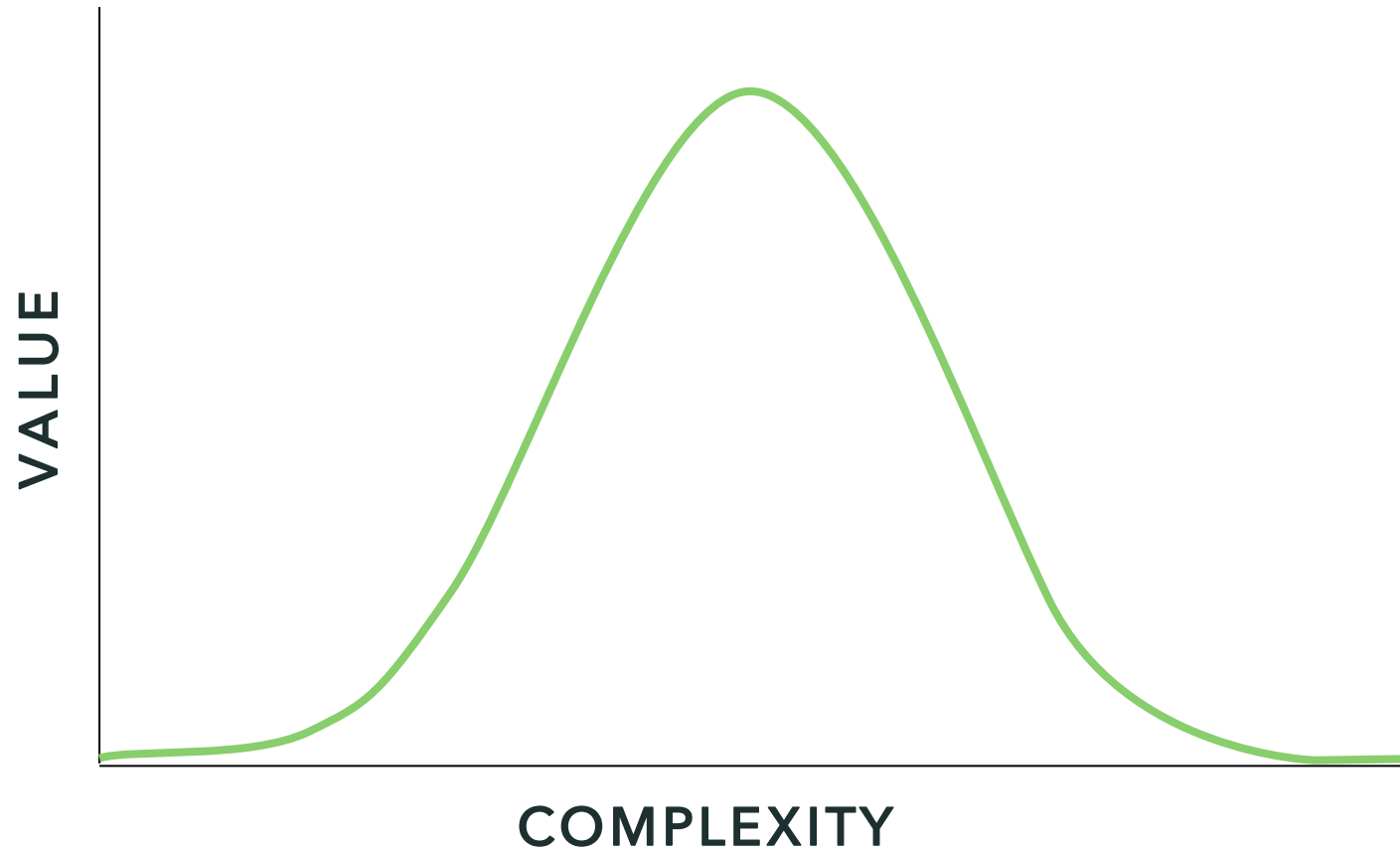
Complexity → Theory

CLASSIC VIEW OF VALUE AND COMPLEXITY

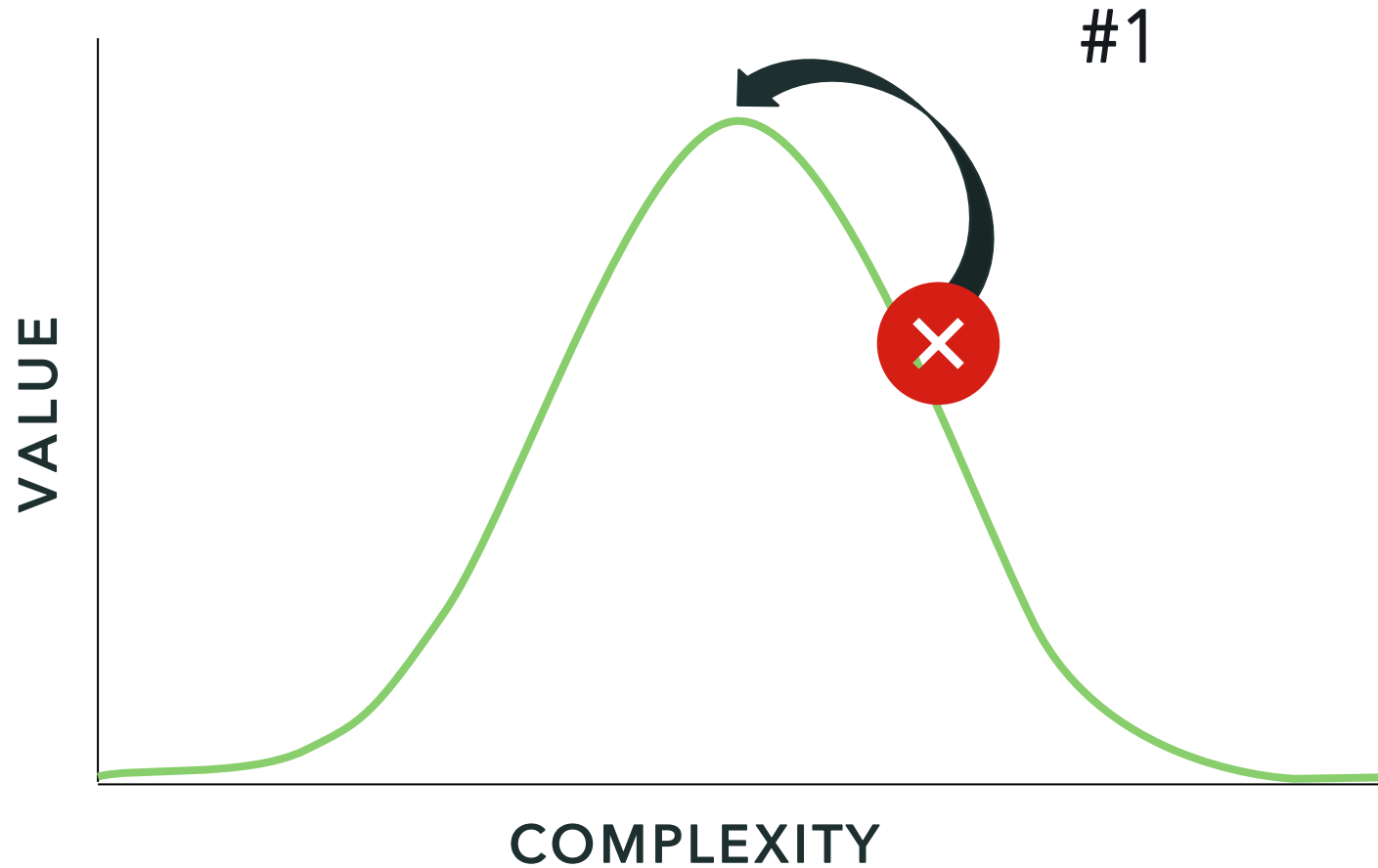


Complexity → Reality

IDEX Experience

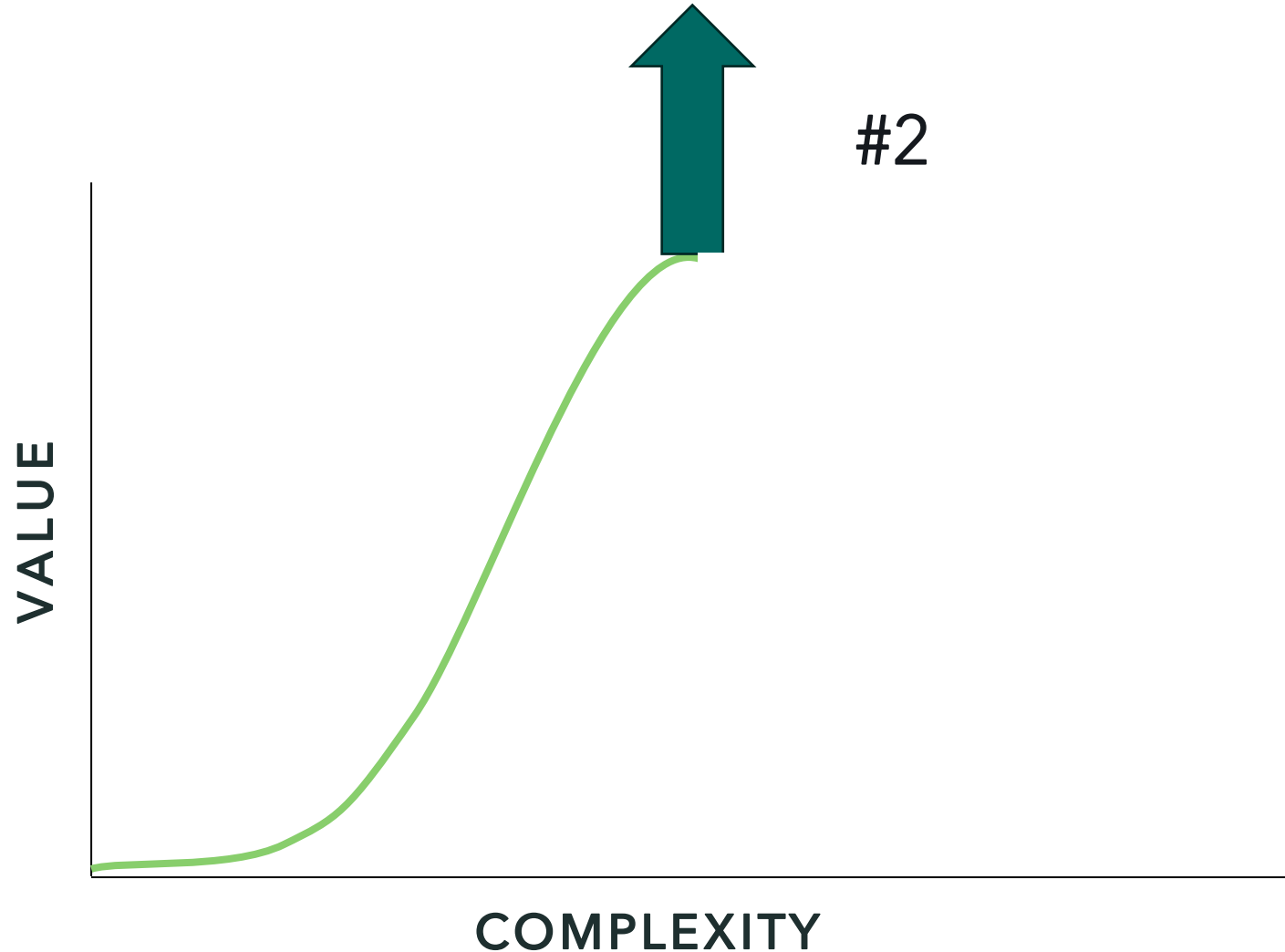


80/20 Impact → Complexity Reduction



80/20 Impact → Investing in Critical Few

IDEX Experience



80/20 Implementation



Year 1

Test at 3 businesses-
2 home runs, 1 mess...
eyes opened!



Year 2

2/3rds of company in
implementation



Year 3

100% of the company
in implementation



Years 4-10

Building of expertise
and culturally ingrained

The Results: 80/20 Delivers

IDEX Experience

	2011 to 2019 CAGR / Δ
Sales	5.9%
OP%	820 bps
EPS	12.7%
ROI	690 bps
Engagement	80th %ile
	9 YR CAGR
TSR	21.7%

The 80 / 20 Approach

Four Steps to 80/20



1. Simplify

Choose our crops



2. Segment

Separate tomatoes and pumpkins



3. Resource

Only water as needed



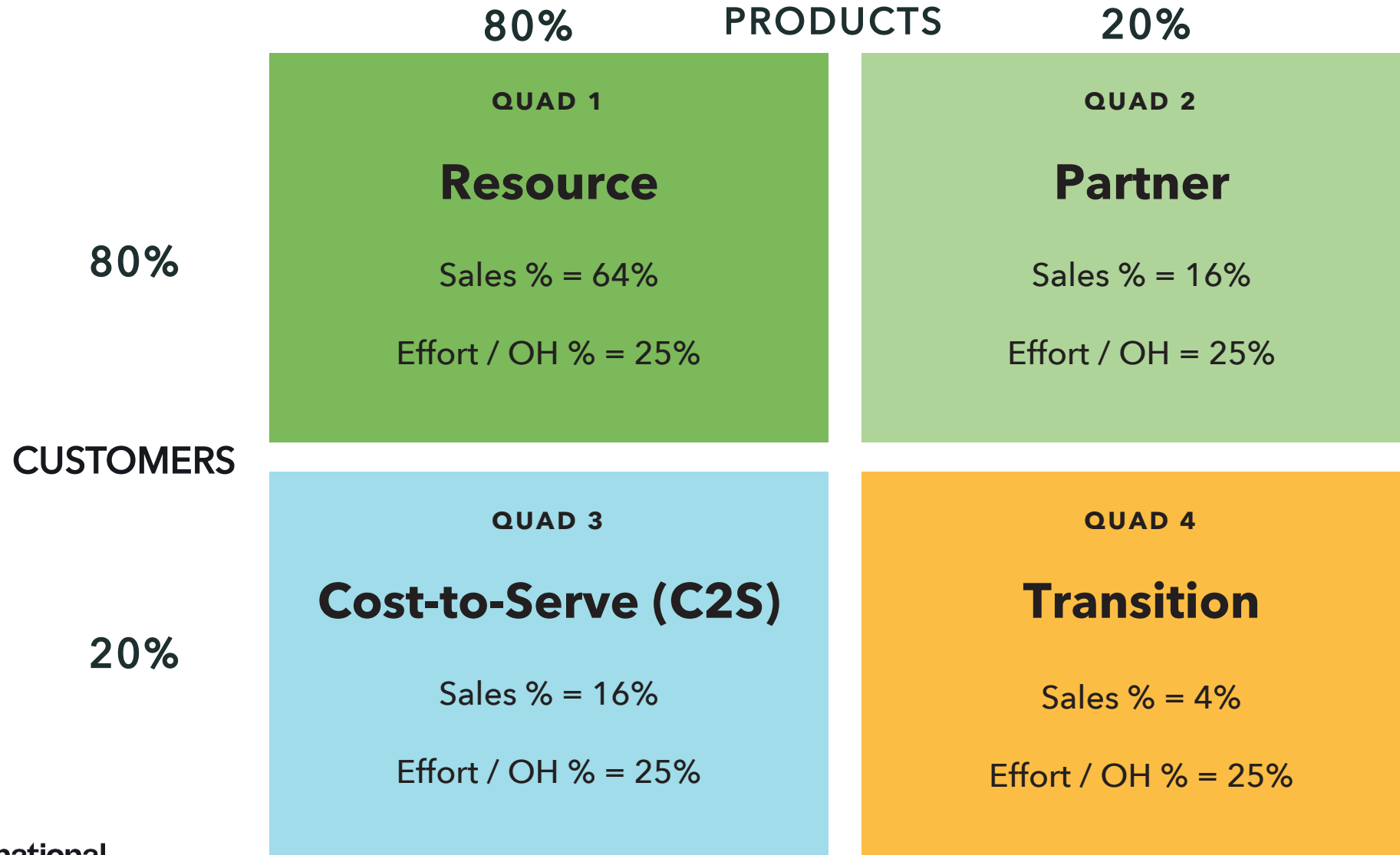
4. Grow

Fertilize, Grow, Harvest

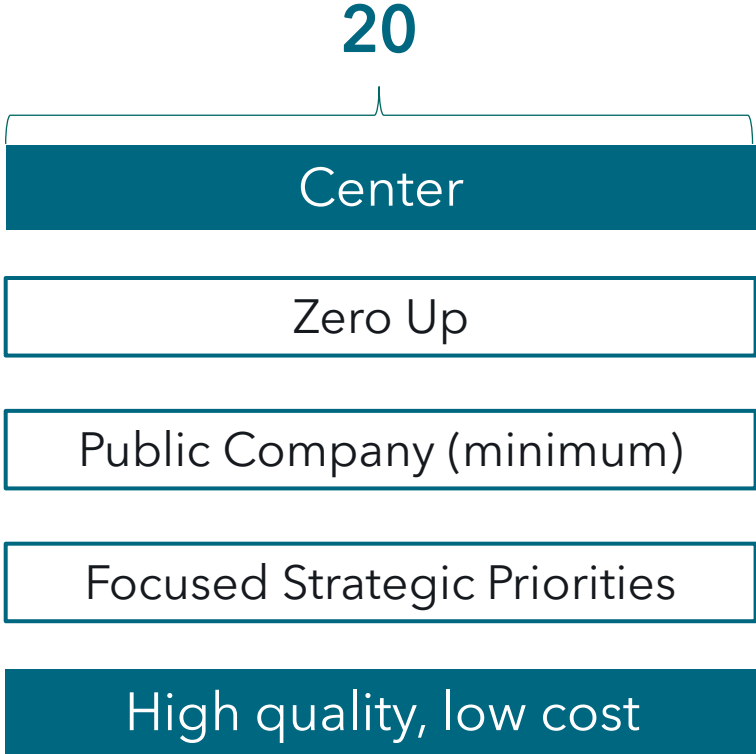
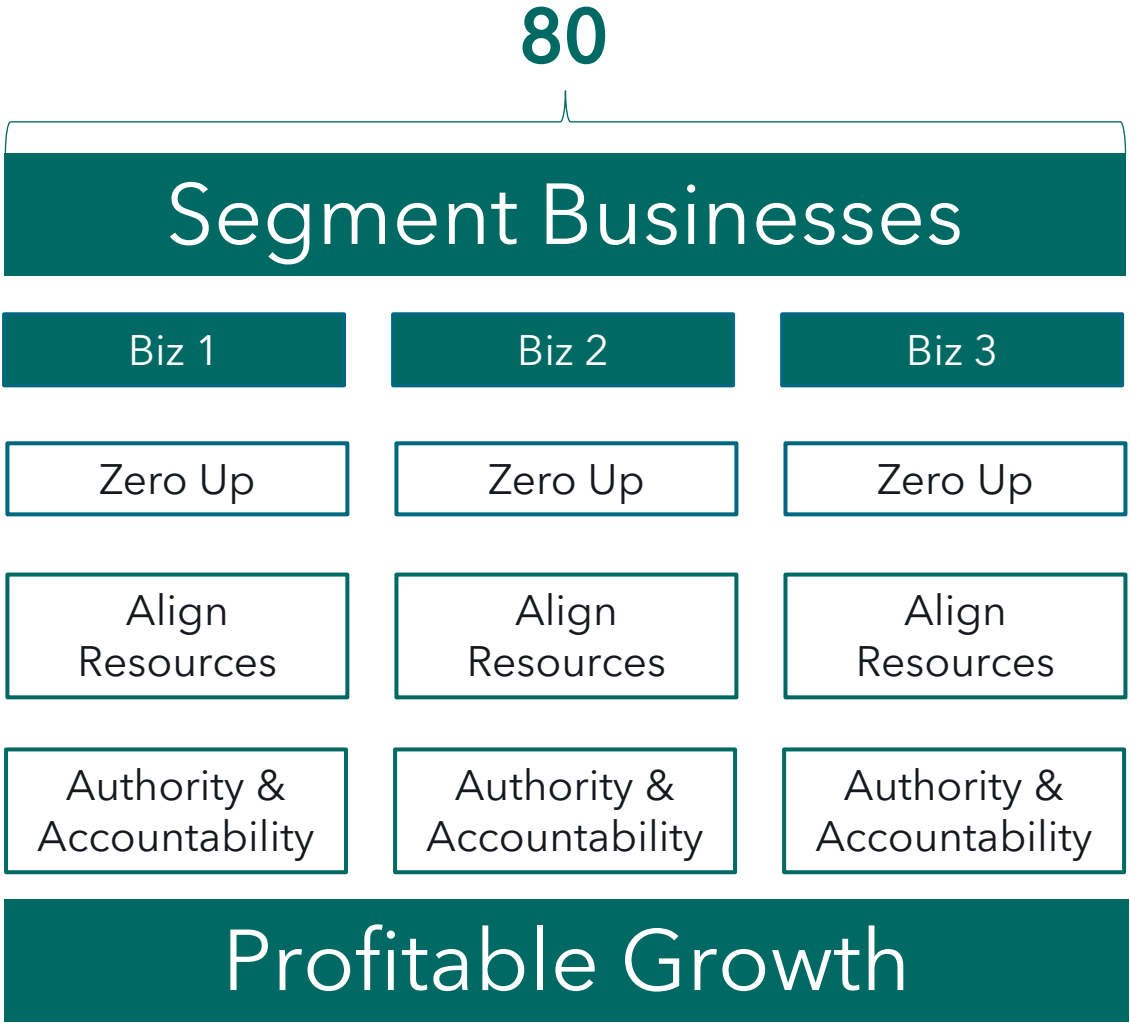
Simplify → Quartile Analysis Reveals Hidden P&L

QUARTILE	CUSTOMERS or PRODUCTS	% REVENUE	% PROFIT
	1st	89%	> 100%
	2nd	7%	Breakeven
	3rd	3%	(\$\$)
	4th	1%	(\$\$\$\$\$)

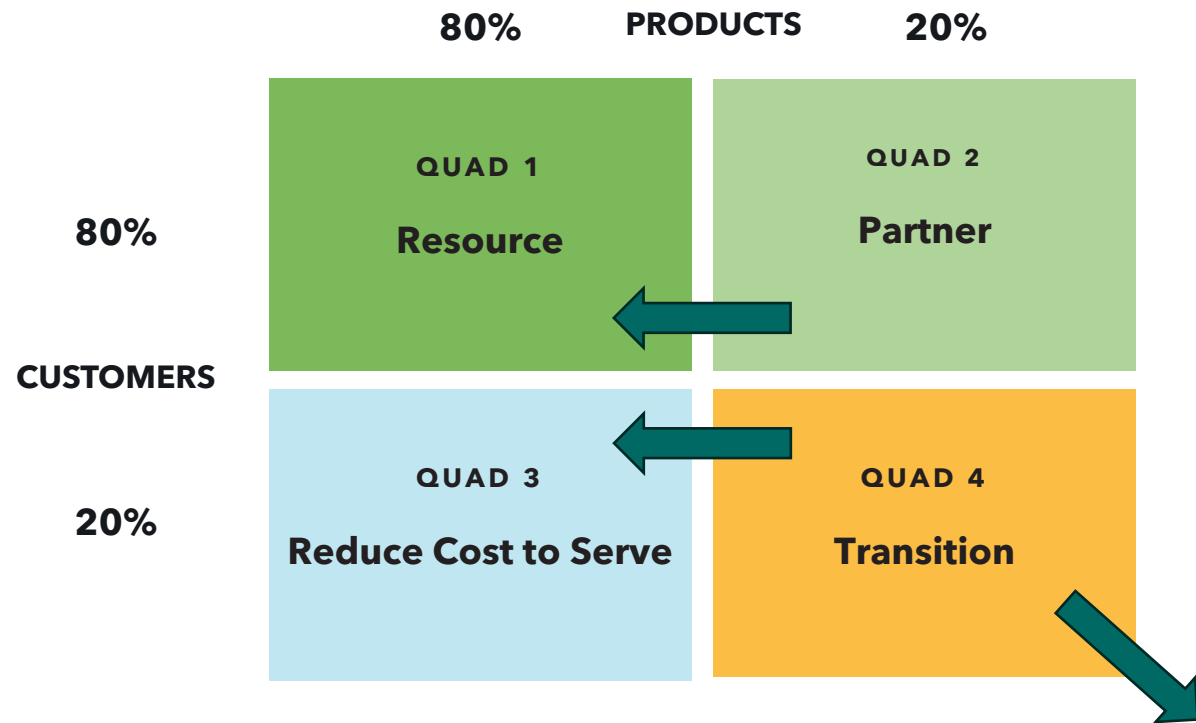
Simplify → Quad Analysis Exposes Complexity and Opportunities for Radical Differentiation



Segment → Align and Focus Resources



Simplify and Segment → Quad 2 & 4 Strategies



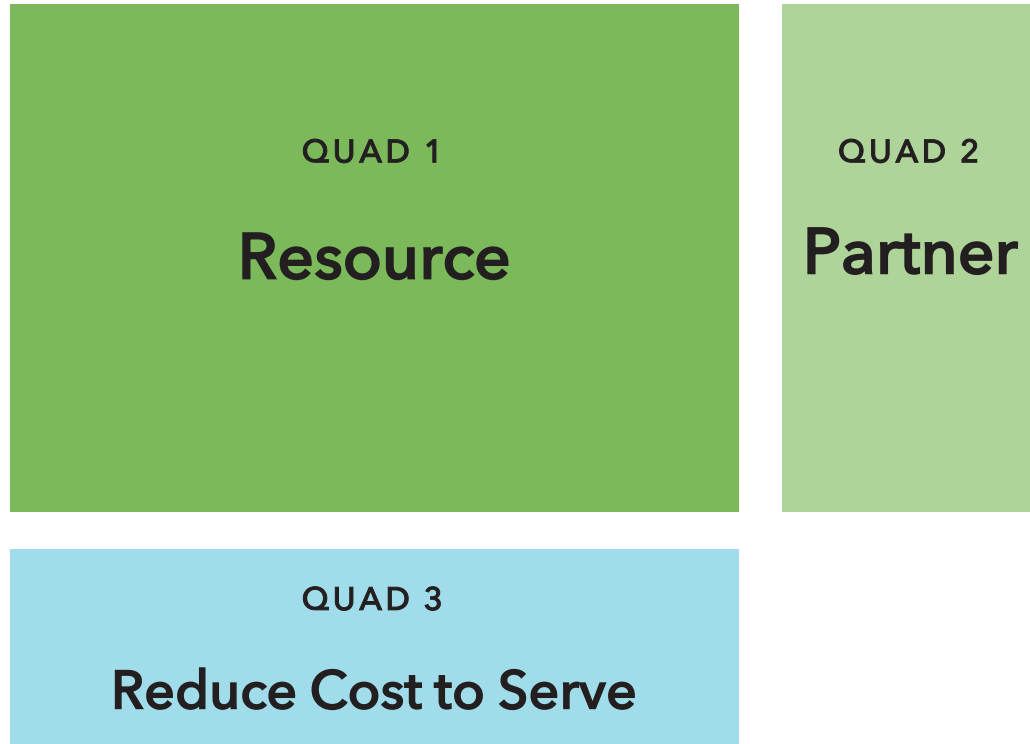
Quad 2 Strategies: Partner

- First do no harm
- Collaborative innovation for shared benefit
- Price to value

Quad 4 Strategies: Transition

- Product & service simplification
- Price to value
- Exit if necessary

Resource → Invest for Differentiation and Profitable Growth in Quads 1 & 3



Quad 1 Strategies:

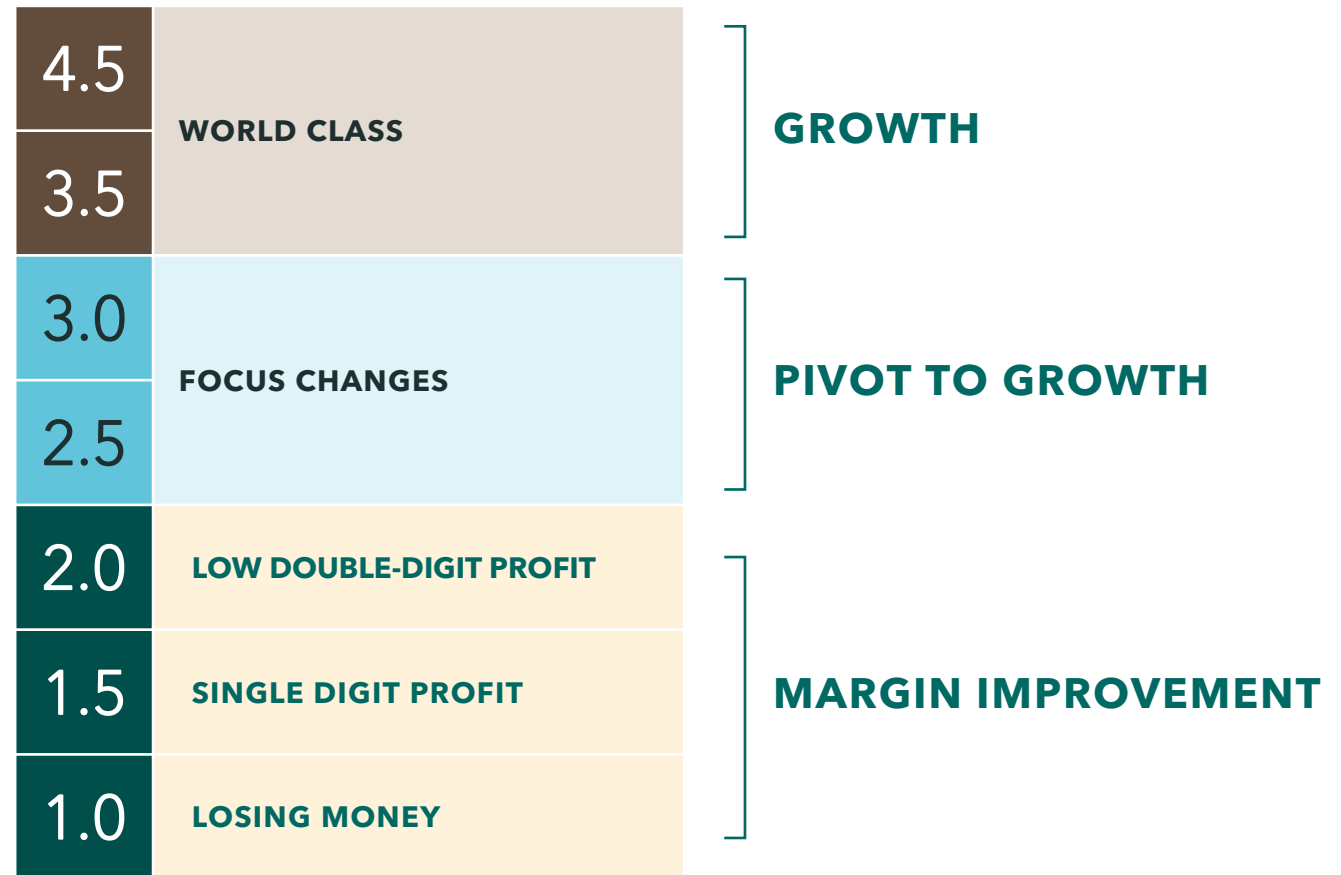
- Dedicate resources aggressively for:
 - Quality
 - Delivery
 - Service
 - Innovation
- Become “embedded”
- Continuously “walk” the customer Value Stream

Quad 3 Strategies:

- Radically reduce cost-to-serve
- Leverage Quad 1 products and production
- Focused, small dedicated team and resources who own these customers

Profitable Growth → Using the Key Ratio

$$\frac{\text{Material Margin \$}}{\text{Total Employee Costs \$}}$$



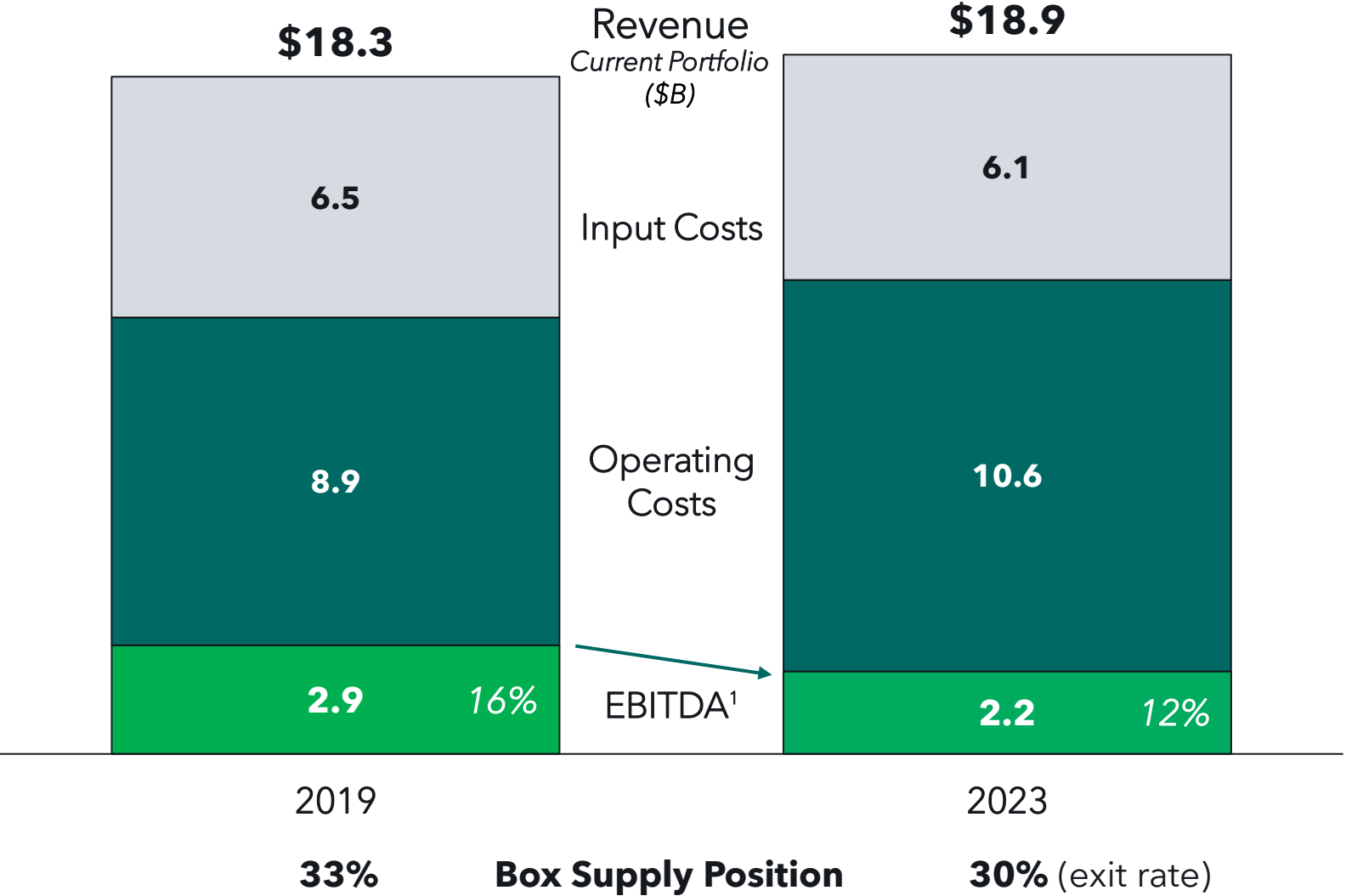
80 / 20 Strategy at IP

Initial Observations – IP Primed for 80/20

- Inside-out focused
- Too much complexity & cost
- Peanut butter resource allocation
- Underinvested for profitable growth
- Opportunity to get paid for value

We've Earned Our Results

Substantial Opportunity to Drive Profit Improvement and Liberate Resources ...

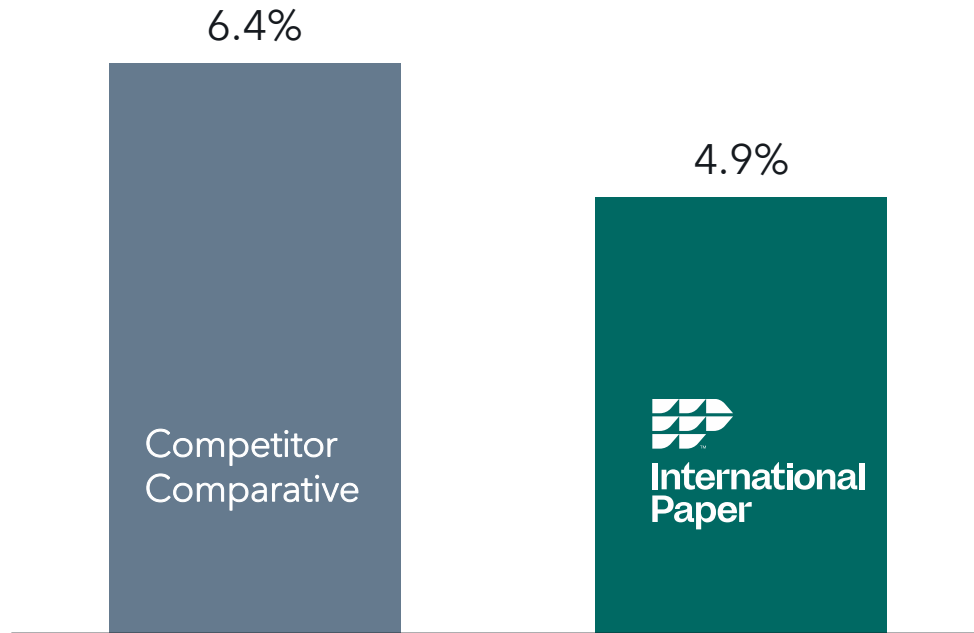


- \$12.8 B Material Margin
- Complexity has grown cost
- Opportunity to optimize and reallocate costs and capital

... and to Invest for Profitable Market Share Growth

Underinvested in capital relative to competitors

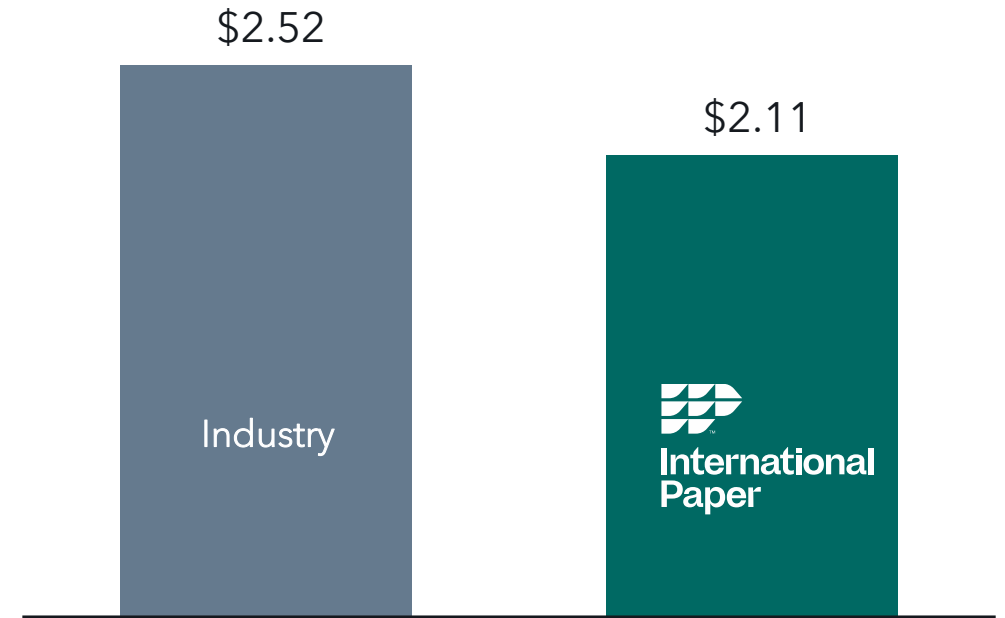
Capex as a % of revenue (2018-2023 avg.)



Source: Public filings¹

Box business underspent in maintenance expense relative to industry

Maintenance \$ per MSF (2018-2023 avg.)



Source: FBA

80/20 Example

Focus on Customer Excellence and Investing for Growth

New Customer Win

Regional Account (~20k TPY)

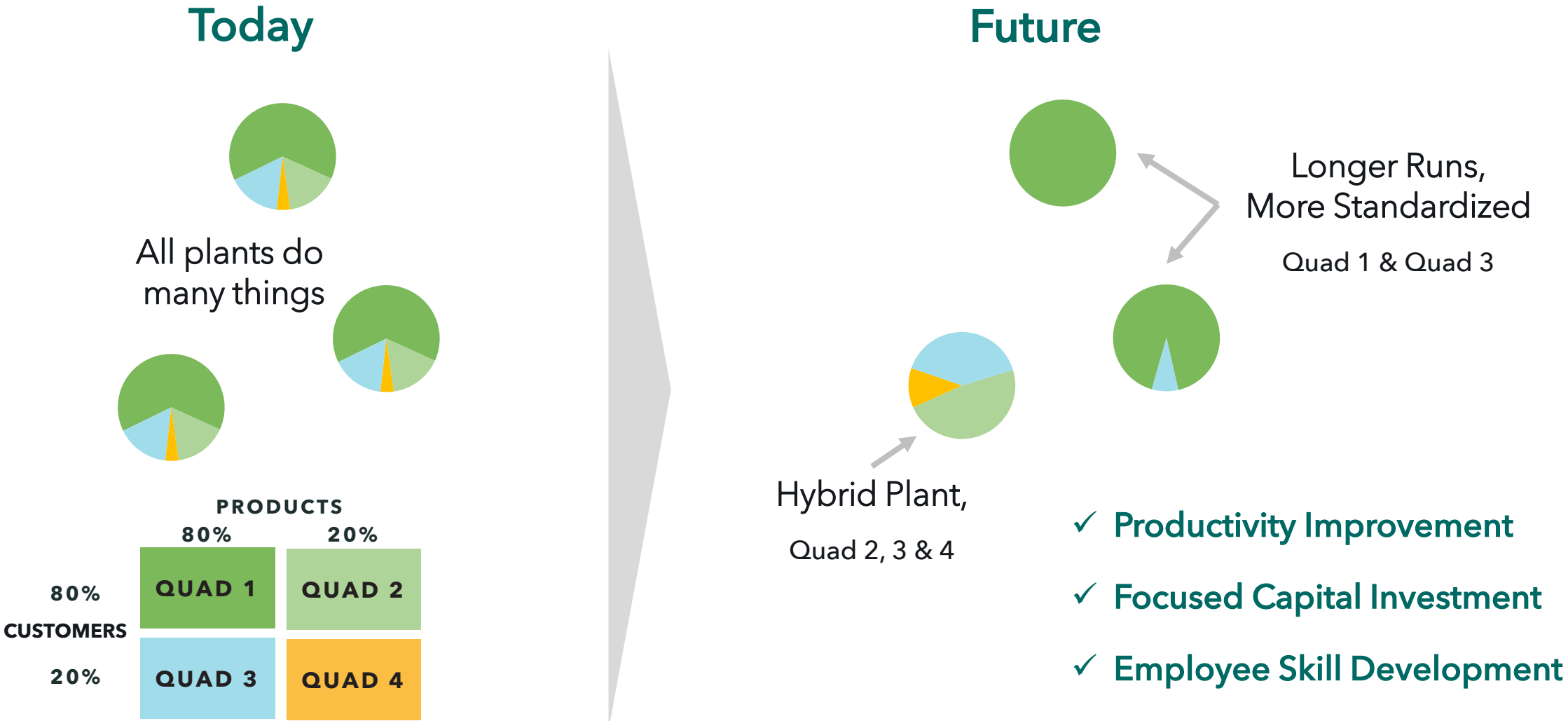
Targeted Segment



- ✓ Capital Investments to Improve Segment Capability
- ✓ Quadrupled Customer Intensity
 - Account Manager Oversight
 - 1 Dedicated Project Manager
 - 2 Dedicated Designers

80/20 Example - Box Plant Pilot

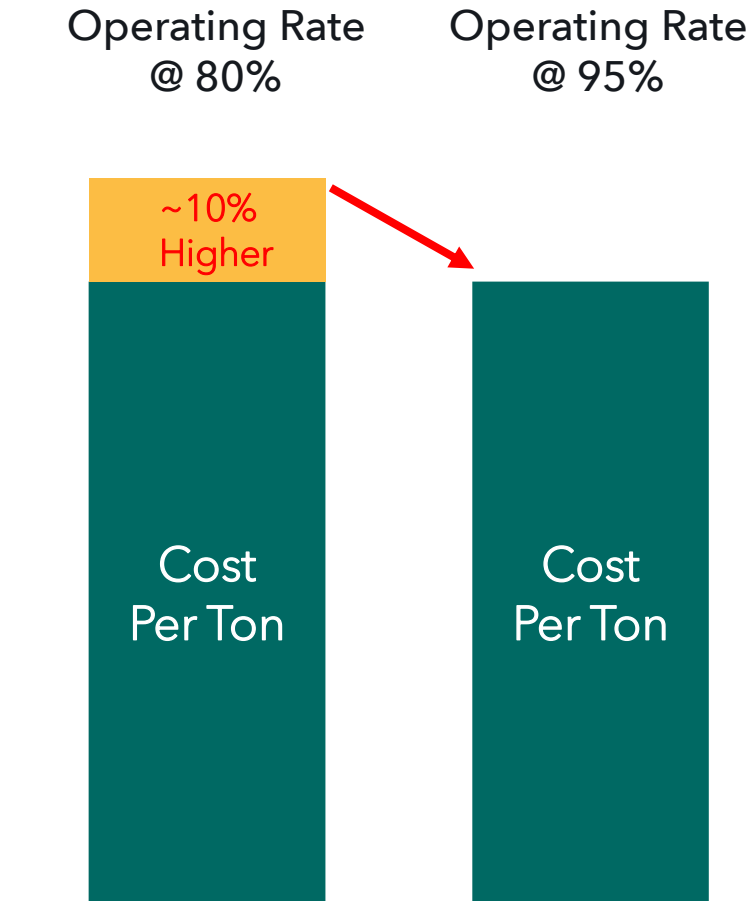
Focus on Segmentation, Resource Alignment and Simplification



80/20 Example

Resource Misalignment is Very Costly

Mill Example



Operating Rate Improvement from
80% to 95% = ~10% Cost Reduction

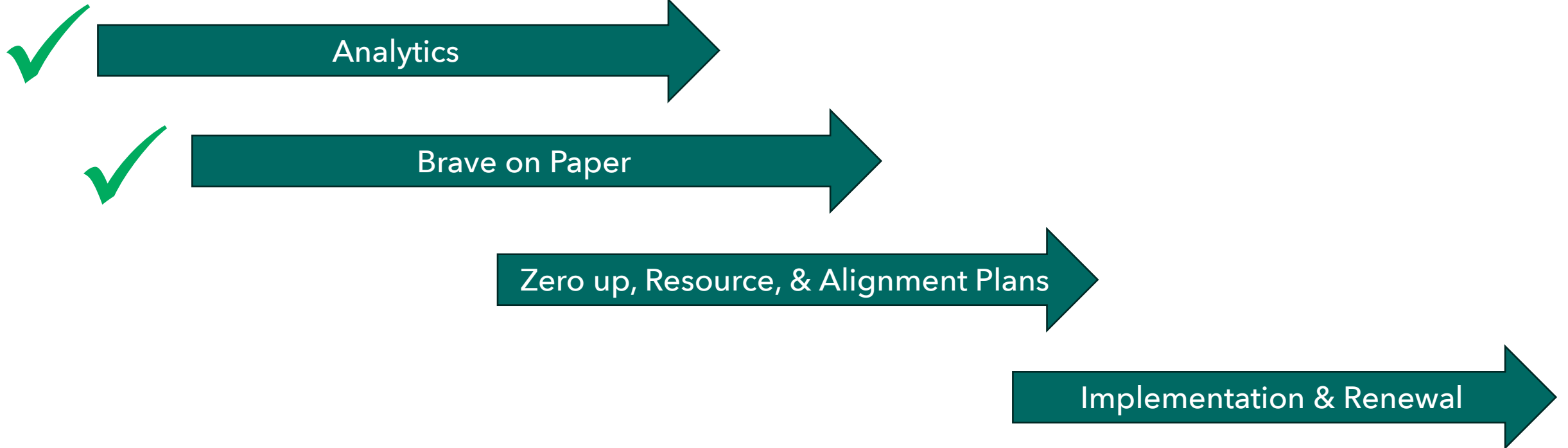
Where Are We On The Journey?

1. Simplify

2. Segment

3. Resource

4. Grow



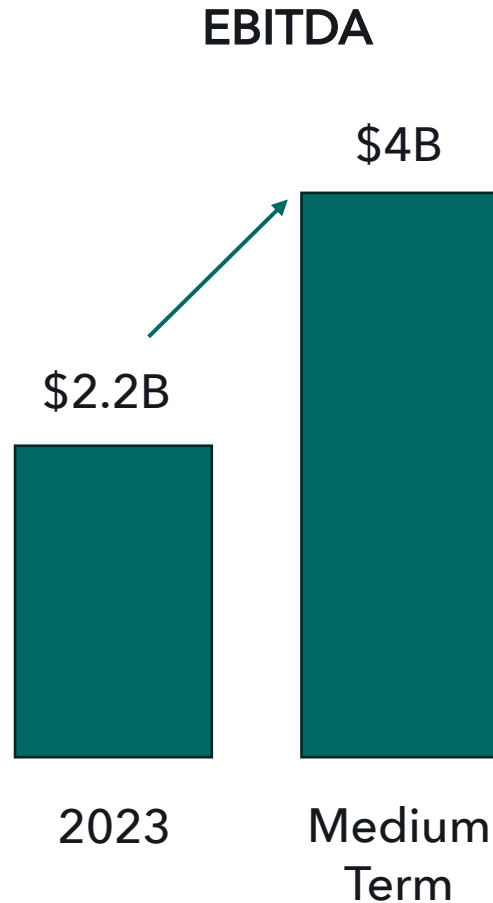
April 2024

Today

4Q 24

2025 and beyond

80/20 Approach to Drive Transformational Performance at IP



Focus on People, Customers & Products where we win

Simplify, align and reduce cost structure

Invest for reliability, productivity, innovation

Price to value

Profitable Growth