Rayonier Advanced Materials Inc. NYSE:RYAM

Earnings Call

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Call Participants

EXECUTIVES

Daniel Bradley

Marcus J. Moeltner
CFO & Senior VP of Finance

ANALYSTS

Daniel Scott Harriman
Sidoti & Company, LLC

Dmitry Silversteyn
Water Tower Research LLC

Matthew McKellar
RBC Capital Markets, Research Division

Presentation

Operator

Good morning, and welcome to the RYAM First Quarter 2026 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the call over to your host, Daniel Bradley, Vice President of Investor Relations. Thank you. Mr. Bradley, you may begin.

Daniel Bradley

Good morning, and welcome to RYAM's First Quarter 2026 Earnings Conference Call. Joining me today is Marcus Moeltner, our CFO and Senior Vice President of Finance and a member of our Interim Office of the CEO. Last evening, we released our earnings report and accompanying presentation materials, which are available on our website at ryam.com. These materials provide key insights into our financial performance and strategic direction.

During today's discussion, we may make forward-looking statements subject to risks and uncertainties that could cause actual results to differ materially. These risks are outlined in our earnings release, SEC filings and on Slide 2 of the presentation. We will also reference certain non-GAAP financial measures to offer additional perspective on our operational performance. Reconciliations of the most comparable GAAP measures can be found in our presentation on Slides 19 through 21. We appreciate your participation today and your ongoing interest in RYAM. I'll now turn the call over to Marcus.

Marcus J. Moeltner
CFO & Senior VP of Finance

Thanks, Daniel. Good morning, everyone, and thank you for joining us. Before I turn to the quarter, I want to begin on Slide 4 and address the announcements we made on April 20. As disclosed, a formal review of strategic alternatives to maximize shareholder value has been initiated, and the company has engaged Morgan Stanley as financial adviser in connection with that review.

At the same time, an interim office of the CEO has been established to provide continuity during the transition and the search for a permanent CEO is underway. Importantly, the members of the interim office of the CEO bring more than 60 years of combined experience at RYAM and Tembec, which provides continuity and deep knowledge of the business.

We remain focused on safety, reliable operations, serving our customers, executing our 2026 priorities and improving value across the portfolio. That has not changed. With that in mind, the strategic review is appropriately broad. The alternatives under evaluation include, but are not limited to, continued execution of our stand-alone strategic plan, a strategic investment or partnership that strengthens the business, a merger or other business combination and the sale of part or all of the company.

They may also include capital structure actions designed to improve financial flexibility, including potential debt refinancing or restructuring, covenant relief or other collaboration with our lenders. Any path under consideration ultimately needs to be evaluated against the same core objective; what best strengthens the company, improves financial flexibility and maximizes shareholder value. As we said in the press release, we have not set a timetable for completion of the review, and we do not intend to provide updates unless and until disclosure is appropriate or required.

So today, my focus is where it should be on execution, on the operating path forward and on the actions that improve value under any outcome.

Turning to Slide 5. The message is straightforward. Our 2026 priorities are unchanged. We have 4 operating priorities for the year: first, deliver positive free cash flow; second, assert our leadership in CS; third, drive year-over-year EBITDA improvement across every business; and lastly, exit 2026 with momentum.

These priorities reflect both where we are today and what must happen next. We entered 2026 with negative free cash flow and elevated debt. So our task this year is clear: strengthen the earnings profile of the business, improve cash generation and build momentum quarter-by-quarter. The first quarter was an early step in that process. I will cover the detailed results on the next slide, but at a high level, the quarter was broadly consistent with the operating plan we laid out in March as pricing, mix and commercial actions to strengthen our leadership in CS continued to come together.

Let's turn to Slide 6 and the first quarter results. Adjusted EBITDA in the quarter was $8 million. High Purity Cellulose generated $24 million of adjusted EBITDA, and we achieved a 17% increase in average CS sales price year-over-year, while CS volumes were lower and commodity mix was higher, and we executed our CS leadership actions.

Paperboard and high-yield pulp were a negative $5 million, reflecting continued pressure from new third-party supply in paperboard and continued domestic oversupply of high-yield pulp in Asia. Corporate and other costs were $11 million for the quarter with favorable foreign exchange rates compared to the prior year quarter, providing some offset. Importantly, we ended the quarter with total liquidity of $160 million, comprising $68 million of cash on hand, $88 million of availability under the [AVL] and $4 million available under our factoring line in France.

The quarter came in broadly in line to slightly ahead of the expectation embedded in our prior outlook. Although still below the level required to achieve our full year objectives, that outcome reflects continued execution of the commercial and operating initiatives required to strengthen our leadership in CS as the near-term benefit from those actions is building. The free cash flow bridge also makes an important point.

Even with a weak first quarter, we generated $12 million of adjusted free cash flow. This reinforces that positive free cash flow in 2026 will come from a combination of better operating performance, improved mix, commercialization of new offerings, disciplined capital allocation and balance sheet actions as needed.

Turning to Slide 7. Our new product pipeline reflects how we are advancing growth through focused innovation and value-added products across the portfolio. What is important here is that these opportunities are not dependent on any single product or end market. They are spread across multiple businesses and in many cases, leverage assets, technical capabilities and commercial positions we already have in place.

The initiatives highlighted in green on the slide are the ones I want to focus on today because they represent the most tangible near-term progress. In paperboard, we continue to gain traction in both freezer board and oil and grease resistant board, and we are targeting approximately 10,000 metric tons of annual sales in 2026 in each of these markets as commercialization and customer qualifications continue to advance.

In high-yield pulp, we see a path to approximately 20,000 metric tons of annual sales in 2026 for softwood high-yield pulp rolls as we move into higher-value absorbent end markets, while the wrapper product provides a nearer-term opportunity to support internal cost reduction and create a path to future external sales.

In Cellulose Commodities, odor control fluff remains one of our more differentiated growth and margin accretive opportunities in the pipeline, which I will come back to on the next slide.

The broader point is that this pipeline supports both near-term earnings improvement and longer-term portfolio value creation. The slide that follows highlights a few representative examples of how the value is being developed through targeted product innovation, sharper commercial focus and a more dynamic operating approach.

So turning to Slide 8. This slide brings together 3 representative examples of how we are working to create value through more focused commercial execution, differentiated product development and a more dynamic operating approach.

First, in Nitration Grade Cellulose. What we have learned is that customers in qualification intensive energetic applications are buying certainty, technical support and disciplined specification control, not simply material that meets the basic spec. RYAM is well positioned here because we are the only supplier with a multisite sulfate and sulfide production footprint across North America and Europe. Our actions are focused on the highest priority conversion and qualification opportunities and on continuing to strengthen customer support, qualification continuity and supply assurance in the applications where reliability matters most.

Second, Odor Control Fluff is a different type of opportunity, but it reflects the same discipline. Adult incontinence is the fastest-growing fluff segment, and there is a clear unmet need for immediate odor control. Our product offers a differentiated urine-activated solution that can be used as a drop-in replacement in existing products. The commercial approach here is also deliberate. We are targeting brands directly in order to pull the solution through the value chain.

Third, Dynamic Asset Allocation is the internal discipline that connects strategy to day-to-day execution. What we have found is that there are still barriers and bottlenecks that can be removed to raise production and improve mix and that we have more flexibility than we have historically used to allocate capacity across our grade portfolio to maximize value. A good current example of this is in the fluff market, where pricing has strengthened. As those market conditions have improved, we have further prioritized volumes into fluff and other attractive softwood pulp markets to take advantage of that pricing environment.

The broader point across all 3 examples is the same. We are becoming more targeted in how we deploy technical, commercial and operating resources, and that is an important part of how we intend to improve the earnings quality of the business going forward.

Let's turn to Slide 9 and the 2026 outlook. The core message on this slide is that 2026 remains a transition year, but one in which we are building leadership momentum and laying the foundation for a stronger 2027 and beyond. The first quarter came in broadly in line to slightly ahead of the near 0 EBITDA level we had anticipated as the benefit of our CS leadership initiative is building.

So while the year still depends on sequential improvement from here, the underlying direction of the plan remains intact. The items on the right side of the slide reinforce that point. In the first quarter, average CS sales price increased 17% as our leadership actions continue to build. We are also advancing trade actions to support fair competition in RYAM's U.S. domestic markets.

Across the CS value chain, we expect inventory conditions to become more favorable as we move into 2027, while CS supply/demand conditions remain tight and continue to support disciplined pricing actions. We also expect to benefit from improving commodity pricing as supply and trade dynamics continue to normalize with pricing currently forecasted to increase sequentially over the balance of 2026.

Beyond the market backdrop, we continue to take actions within the business to improve the earnings and cash flow profile. That includes ongoing inflation mitigation work across the enterprise and continued progress on new product and grade-specific leadership initiatives that are expected to contribute incremental value in 2026 and beyond.

Taken together, these actions are intended to build a stronger earnings base and improve cash generation over time. That said, our priorities for 2026 are unchanged. We continue to target positive free cash flow, assert our leadership in CS, drive year-over-year EBITDA improvement across every business and exit the year with stronger momentum.

We also remain focused on safer operations, strengthening our organization and executing with greater precision and speed. In closing, I have confidence in the plan we are executing and in the team that is advancing it. Regardless of which plan is ultimately chosen, execution remains the anchor under any outcome. The initiatives we've discussed today are the right initiatives for the company. They strengthen our financial position, improve our commercial posture, increase operating discipline and enhance the strategic value of our assets.
The best way we can support the strategic review is to execute the initiatives in front of us, improve our earnings and free cash flow quarter-by-quarter and continue building a stronger company. If we do that

well, we will reinforce the business under any scenario and position RYAM for a stronger 2027 and beyond. With that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions]

Your first question is from the line of Daniel Harriman with Sidoti.

Daniel Scott Harriman
Sidoti & Company, LLC

I'll start with a couple, and then I'll get back into the queue. But Marcus, heading into 2026, it was very clear that CS volumes would be under pressure as you continue to push price. And obviously, Q1 results were consistent with that. Could you provide us with a little bit of an update regarding where you stand on those pricing conversations today and when you expect to have that fully placed? I believe you had maybe between 12% and 15% still to go. And then with the breakdown on the CS volume decline, the release calls out elevated acetate inventories and also soft ethers demand. I was just hoping to get an idea of how much of the volume weakness is market-driven versus self-imposed by those higher prices and if that at all changes your confidence in the back half of recovery?

Marcus J. Moeltner
CFO & Senior VP of Finance

Thanks for your questions. Maybe just as an update to the negotiations and asserting our leadership strategy. As we said, we have secured the majority of our 2026 CS volume. And at pricing that's meaningfully higher than '25. And a good reference point is the evidence that we shared with the 17% increase in Q1.

So again, this really reflects deliberate commercial actions we've taken to manage pricing and improve our mix and better align value -- with the value our products bring to the applications. And that said, if you look at our industry, Hawkins Wright, who publishes capacity and demand figures for the industry, anything above 88% is really balanced, and we're above 90%. So we're still in the backdrop of a very constructive market. So we see our discussions are well advanced, and we continue to make progress.

Speaking to your second question on acetate and ethers markets, we continue to advance our discussions with the acetate customer base in the backdrop of an end-use market that does have existing elevated inventories, but it's improving. In ethers, that's the market where you do see the weakness, European construction. And there's also the impact of competing products from China that make their way into that end-use market. But overall, consistent with our last message in the back half of the year, we will continue to complete these negotiations.

Operator

Your next question is from the line of Matthew McKellar with RBC Capital.

Matthew McKellar
RBC Capital Markets, Research Division

First for me, I guess you disclosed on April 20 that you're engaged in a formal process to explore strategic alternatives. I think there was some language in the presentation suggesting you don't have a specific time line. But just to help us get a sense of timing here, can you help us understand maybe when you formally began this process? And maybe more broadly, what do you think is driving interest in RYAM at this point in time? And what do you think public markets have maybe underappreciated about your business?

Marcus J. Moeltner
CFO & Senior VP of Finance

Yes, Matt, thanks for your question. As I mentioned in my prepared comments today, engaging Morgan Stanley was a decision made given interest expressed by third parties. And as you can see, it's a very broad mandate, right, that could involve numerous permutations of corporate development type activities to -- with the real focus to maximize shareholder value.

And there's also a piece that's related to continuing to address the balance sheet of the company and look to optimize the capital structure of the company. And it's -- that process is -- has the overarching objective, as I mentioned, to maximize shareholder value because I truly believe there is value within RYAM that is not recognized by the marketplace. And we have a unique offering. I think you're seeing that unique offering be reinforced in the current backdrop of what's going on in the world where you've got pressure on oil-based products and our cellulose-based products are well positioned in any environment to be perceived as having high value.

Matthew McKellar
RBC Capital Markets, Research Division

Thanks for that perspective. Maybe next for me, can you provide maybe just a bit more color on the conditions you're seeing in the fluff market right now and maybe how those conditions might be different than your expectations going into the year? And then I guess with that, can you talk maybe just a bit about your mix in the commodities business, maybe around what your mix of fluff looked like in Q1 compared to what it looked like over the past couple of quarters? And then whether you'd expect mix to evolve much through the balance of the year compared to what it looked like in Q1?

Marcus J. Moeltner
CFO & Senior VP of Finance

Yes. Thanks again, Matt. Yes, so higher fluff pricing is really a positive background to our business right now. And it really melds well with the dynamic asset allocation strategy that I referenced in my comments.

Given what we're seeing in the fluff space, there is definitely upward pricing movement. We're seeing the ability to pivot and drive our mix toward more fluff production. If I were to contrast Q1 versus Q2, we certainly had a higher mix of paper pulp in Q1 versus where we will be this quarter, given that we're going to drive pricing and volumes to fluff.

We're picking up that there's some further pricing announcements pending here in the range of a net $55 increase in China and $120 in North America and Europe. So I think there's a lot of positive momentum in fluff. I think additionally, as we advance the commercialization of the softwood rolled product in Temiscaming, again, that we will be able to have products across the continuum of fluff grades and position our product made out of Temiscaming on this out of high yield and get some further value there as well and drive improved mix. So I'm really excited about that project as well.

Operator

Your next question is from the line of Dmitry Silversteyn with Water Tower Research.

Dmitry Silversteyn
Water Tower Research LLC

Quick question. Recently, there was a development on the antidumping case at the end of last year concerning Brazilian and Norwegian imports. Can you -- the ruling was positive for you in the sense that there was some damage that was assessed, but the amount of remedy, I guess, was a little bit disappointing.

Can you talk about what other things we can look forward to in terms of that trade dispute? And then as a follow-up, you mentioned in your press release that your shipping costs have gone up, particularly to China. Is it in any way related to the conflict, geopolitical that's going on in the Middle East now? Or I guess, to ask it differently, are there any impacts on your logistics and your shipping costs as a result of that conflict?

Marcus J. Moeltner

CFO & Senior VP of Finance

Dmitry, thanks for your questions. So maybe I'll take the trade comment first. So really, we feel positive about the direction and where things are headed across the tariff-related work streams we have, including AD and CVD and as you know, RYAM is the sole remaining U.S. producer of high-purity dissolving wood pulp. And we think the importance of a reliable domestic supply is paramount. And it's particularly important for critical infrastructure and certain defense-related applications.

And it's continuing to get really better understood. It's early days, but we are optimistic on the direction that this is taking and like the trajectory that we're on, on those discussions.

Maybe secondly, on your comment on inflationary pressures on logistics. Yes. I think like everybody, you're seeing the impact of higher oil pricing and diesel costs. And there are surcharges coming through on freight. We're certainly focused on that. It's creating pressure as well, perhaps on some chemicals, think of the sulfur and ammonia families. But we're actively managing this through supplier negotiations. We've got targeted commercial recovery actions that we're pursuing. And where appropriate, we continue to pursue cost discipline to mitigate these impacts. So thanks again for your questions, Dmitry.

Dmitry Silversteyn
Water Tower Research LLC

Okay. Just if I can, a quick follow-up. You mentioned in your presentation, several new businesses or business lines that are gaining traction in the first quarter, second quarter, some by the end of the year. If we were looking at Rayonier's performance versus your expectations in your guidance, what -- which of those products do you think will have the greatest impact on your results provided successful commercialization and share gains for 2026. And which should we think about is it more impactful for '27 and beyond?

Marcus J. Moeltner
CFO & Senior VP of Finance

Yes. Thanks again, Dmitry. So if you look at our new product pipeline, several of those products are Temiscaming centric -- so think of the freezer board and oil and grease, those will help us drive better mix across our paperboard portfolio. And those will be impacts in the second half of this year in '26. And as well as we advance the commercialization of the roll product, the fluff product at Temiscaming again, that is another value adder for the second half. So we see all those products that are being produced in Temiscaming as providing a nice benefit for RYAM for the balance of the year.

If you look longer term, certainly, I mentioned it in my comments, the Odor Control Fluff is a real differentiator and a nice prospect. I can see that adding considerable value to our fluff portfolio going forward. So really excited about all those products. But think of Temiscaming having a nice impact from these activities, Dmitry.

Operator

[Operator Instructions] You do have a follow-up from the line of Matthew McKellar with RBC Capital.

Matthew McKellar
RBC Capital Markets, Research Division

Just one follow-up for me and kind of following my previous question, but referencing Slide 8 and the dynamic asset allocation comments you've made. Can you give us any more detail at all around how you've achieved this greater flexibility to increase production and allocate capacity across grades? And then I guess a follow-up on Daniel's question somewhat. Can you share any perspective around how we should think about the sequential change in CS shipments into Q2 and whether the fire adjustment will have any impact to acetate volumes in the quarter in particular?

Marcus J. Moeltner
CFO & Senior VP of Finance

Yes. Thanks again, Matt. So examples of the execution and leveraging this dynamic asset allocation strategy, it's a question of being more nimble and quicker to respond to market changes because our production lines are quite flexible. And it's just leveraging that capability and putting it into action to be able to adapt to market changes quickly. We had to do that in Q1. We had to adapt B-line to making a mix of commodity paper pulp to keep the lines running. And as that's now filled with acetate, you can see how we've put that into action.

Another example is as fluff markets have improved, I just mentioned it earlier, is driving that mix higher. And we have that same capability at Tartas where we can pivot between ethers type grades and make a fluff product.

So it's just being mindful of our asset capabilities and putting that into action in real time. I would say your second question, sequentially, how should we think about volumes, you should think sequentially that CS volumes will be higher from the base, right? We just did over 70,000 tons of CS. We could be upwards of 15% to 20% higher on those volumes.

We'll also drive some better fluff pricing, and that mix should be greater given that we'll make less paper pulp. Lastly, your question on the fire, as we mentioned, this was a very isolated and contained fire that occurred. And as we confirmed in our comments relative to the previous fire, a minor impact in the range of $5 million we mentioned. And Matt, as far as production, we were more focused on paper pulp as we started up from the outage. So again, the impact on acetate, I would see that as being de minimis.

Operator

At this time, there are no further audio questions. I will now hand the call back over to the presenters for any closing remarks.

Marcus J. Moeltner
CFO & Senior VP of Finance

Again, thank you again for your time today and for your continued interest in RYAM. We really appreciate the support and engagement of our shareholders and other stakeholders. And as I mentioned, our focus remains on disciplined execution, open communication and continuing to build value in the business. And we look forward to updating you further on our progress next quarter. And thanks again.

Operator
This concludes today's presentation. Thank you for joining. You may now disconnect your lines.