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Earnings Call

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Call Participants

EXECUTIVES

Cody LaCoste

Daniel M. Krawczyk
CEO, President & Director

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 Second 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, Cody LaCoste, Senior Manager of Investor Relations and Corporate Development. Thank you. Mr. LaCoste, you may now begin.

Cody LaCoste

Good morning, and welcome to RYAM's Second Quarter 2026 Earnings Conference Call. Joining me today are Dan Krawczyk, our President and Chief Executive Officer; and Marcus Moeltner, our Senior Vice President of Finance, Chief Financial Officer and Treasurer.

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 priorities. During today's discussion, we may make forward-looking statements subject to risks and uncertainty 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 to the most directly comparable GAAP measures can be found in our presentation on Slides 17 through 19. We appreciate your participation today and your ongoing interest in RYAM.

I'll now turn the call over to Dan.

Daniel M. Krawczyk
CEO, President & Director

Thanks, Cody. Good morning, everyone, and thank you for joining us. It's a privilege to be with you today for my first call as President and Chief Executive Officer of RYAM. Before discussing the quarter or my background, I want to address the company's strategic review directly. The comprehensive review of strategic alternatives remains a top priority for RYAM. It's active, it's progressing with urgency and discipline, and it's focused on evaluating the full range of strategic and financial alternatives available to the company to determine the path forward that best maximizes value for the shareholders.

The review is advancing through the appropriate stages, and we are encouraged by the constructive engagement to date. We currently expect to conclude the strategic review and communicate a clear path forward during the fourth quarter. I recognize that my appointment in the middle of this process has led some shareholders to ask whether the company remains fully committed to the review.

Let me be clear, my appointment does not alter, delay or narrow the process. The Board asked me to bring an operational lens, strategic perspective and transaction experience to a clear mandate; maximize value for the shareholders. My responsibility is to support the rigorous strategic process, strengthen the performance and market position of the business during the process and ensure the company is prepared to execute effectively under the path ultimately selected.

Those responsibilities are closely connected. A comprehensive strategic review requires a clear understanding of the company's underlying value, its commercial and operational opportunities and actions needed to realize that value. It also requires a stable leadership capable of operating the business during the review and executing decisively once a path is established.

Throughout my career, I have led manufacturing businesses through periods of transformation, portfolio change and value creation. Over the past 35 years, I have managed global operations across specialty chemicals, minerals and advanced materials with responsibility for improving operating performance, allocating capital, developing differentiated products and evaluating strategic opportunities. That experience is a strong fit for RYAM and for this moment in the company's history.

Since joining the company, I have spent significant time with our employees, customers, leadership team and advisers as well as interested parties participating in the strategic review and other stakeholders. I have also visited our facilities, reviewed the broader manufacturing network and assessed the opportunities across the portfolio. Those discussions and visits have reinforced my conviction that RYAM possesses substantial untapped value. At the center of that value is a highly differentiated Cellulose Specialties franchise with leading market positions, specialized and difficult to replicate assets, deep technical expertise and strong customer relationships built over decades.

Our products serve demanding applications where purity, consistency, technical performance and continuity of supply are critical. These are durable competitive advantages. Our customers are critical partners and the relationships we have built with them are an important asset for the company. We intend to work collaboratively to respond to their evolving needs, support continued innovation and create value together.

Both capabilities and partnerships support a broad range of end markets, including pharmaceuticals, food, filtration, construction, coatings, consumer products and other industrial applications. RYAM is also an important North American supplier of nitrocellulose grade dissolving wood pulp used in defense and industrial applications, reinforcing the strategic relevance of our assets and technical capabilities.

I've also been impressed by the depth of the expertise and commitment of our employees. Their specialized operating and technical knowledge, together with their focus on safety, quality, reliability and customer service is a critical part of the company's competitive position and underlying value. At the same time, there is meaningful opportunity to improve the performance across our manufacturing network.

We have identified a tangible pipeline of reliability, productivity and cost initiatives, including energy efficiency, process optimization and automation. These are clear actionable levers within our control and can improve the earnings and cash generation capability of the network. The objective is not simply to operate the mills at higher volumes, it's to operate them more reliably and efficiently by aligning production with the most attractive product mix and prioritizing markets where RYAM has the strongest competitive position.

Our strategy is to build on these strengths through disciplined commercial execution, closer customer collaboration and continued product innovation, helping our customers differentiate their products and compete more effectively in the markets they serve. We are also selectively advancing biomaterials opportunities where the commercial potential and risk-adjusted returns support further development.

The most important point I want shareholders to take away from this slide is that executing the business and completing the strategic review are not competing priorities. Stronger operations, disciplined commercial execution and improved cash generation enhance the value of the company and support the full range of alternatives being evaluated.

Turning to Slide 5. Our priorities for 2026 are clear and directly aligned with that objective. First, conclude the strategic review and communicate a clear path forward during the fourth quarter. This remains a top priority. Second, continue executing our cellulose specialties leadership strategy by deepening our customer partnerships and aligning product performance, service and value with evolving customer needs while maintaining disciplined commercial execution. Third, build on sequential improvement already delivered, strengthen business fundamentals across the portfolio and deliver positive free cash flow for 2026.

That means advancing commercial execution, new product commercialization, reliability, product mix and cost performance. Our full year free cash flow trajectory remains aligned with our prior expectations. And fourth, exit 2026 with momentum, supported by a stronger earnings run rate and greater financial flexibility entering 2027, including positioning the company to evaluate potential refinancing alternatives.

These priorities are intentionally connected. Together, they strengthen the company's earnings and cash flow profile, improved financial flexibility and enhance value under any potential outcome of the strategic review.

With that, I'll turn it over to Marcus to walk you through our second quarter results, segment performance and balance sheet. I'll come back to you on Slide 10 to discuss the outlook and the actions positioning the company for a stronger performance in 2027.

Marcus J. Moeltner
CFO & Senior VP of Finance

Thank you, Dan. Turning to Slide 6. Second quarter net sales were $376 million, up 18% sequentially and 11% year-over-year. Loss from continuing operations improved to $33 million from $81 million in the first quarter and included a $13 million noncash asset impairment charge related to high-yield pulp. Adjusted EBITDA increased to $40 million from $8 million in the first quarter and $28 million in the prior year quarter. On a year-over-year basis, High Purity Cellulose adjusted EBITDA increased $12 million to $57 million.

Paperboard and high-yield pulp declined $8 million to negative $10 million, while Corporate and Other improved $8 million to negative $7 million. In total, adjusted EBITDA increased $12 million or 43% compared with the prior year quarter. I will cover the key segment drivers on the next 2 slides.

Turning to Slide 7. High Purity Cellulose net sales increased $38 million sequentially and $29 million year-over-year to $301 million. Adjusted EBITDA increased $33 million sequentially and $12 million year-over-year to $57 million, with margin expanding to 19% from 9% in the first quarter and 17% in the prior year quarter.

CS pricing increased 8% sequentially and 21% year-over-year, while sales volumes improved 19% from the first quarter. Compared with the prior year, volumes remained lower, as we continued to execute our value-based pricing initiatives. In Cellulose Commodities, pricing improved 6% sequentially but remained 11% below prior year levels. Volumes nearly doubled year-over-year, as operating rates improved and production shifted toward commodities.

The improvement in adjusted EBITDA was driven by higher CS pricing, improved operating rates and lower wood and fixed costs. These benefits were partially offset by lower CS volumes, higher commodity mix and inflation. We also continue to advance trade actions to support fair and competitive conditions in RYAM's U.S. markets.

Turning to Slide 8. Paperboard and high-yield pulp net sales increased $19 million sequentially and $7 million year-over-year to $75 million. Adjusted EBITDA was negative $10 million compared with negative $5 million in the first quarter and negative $2 million in the prior year quarter, as higher volumes were more than offset by lower pricing as well as planned maintenance and market-related downtime.

Paperboard pricing increased 3% sequentially and volumes improved 11%. Tighter market conditions supported the sequential pricing improvement and are supporting a firmer outlook, although pricing remained below the prior year quarter. High-yield pulp volumes nearly doubled sequentially and increased 29% year-over-year, primarily due to shipment timing, while pricing remained under pressure.

We are actively monitoring evolving trade dynamics, including the recently announced tariffs on certain Canadian-sourced products and have actional mitigation plans in place. We also continue to advance higher-value products across freezer board, oil and grease resistant grades and softwood rolled high-yield pulp to improve mix and expand market participation.

Turning to Slide 9. We ended the quarter with total liquidity of $145 million. This consisted of $57 million of cash, $76 million of availability under our North American ABL facility and $12 million under our France factoring facility. Adjusted net debt was $755 million, and net secured debt was $726 million. Net secured leverage was 4.2x covenant EBITDA compared with the covenant test of 4.75x, and we remained in compliance with all debt covenants.

Year-to-date cash provided by operating activities was $37 million, translating into adjusted free cash flow of negative $8 million. This represents a $57 million improvement from negative $65 million in the prior year period and keeps us on track to generate positive free cash flow for the year as performance momentum continues through the second half. Year-to-date CapEx was $45 million, including $9 million for strategic projects. We remain focused on preserving liquidity, managing CapEx and improving cash generation.

With that, I'll hand the call back to Dan.

Daniel M. Krawczyk
CEO, President & Director

Thanks, Marcus. Before we open the call for questions, I want to focus on the drivers of expected improvement in the second half and how the actions underway are building momentum into 2027. As shown on the left, our second quarter results were ahead of expectations and keep us on the trajectory we outlined with our fourth quarter results and reiterated last quarter. Our full year outlook remains aligned with our prior expectations of generating positive free cash flow in 2026.

In Cellulose Specialties, pricing increased 21% year-over-year in the second quarter, reflecting the differentiated performance and value of our portfolio. We expect pricing to remain significantly above prior year levels through the second half with full year pricing aligned with our prior expectations. Second half volumes are expected to improve compared with the first half and remain in line with our expectations.

We also anticipate more favorable inventory conditions across the cellulose specialty supply chain as we move into 2027. Underlying cellulose specialty supply and demand conditions remain tight. Our commercial approach will remain disciplined and collaborative as we continue working closely with our customers to align product performance, service and value with evolving needs. In cellulose commodities, market pricing has stabilized, and we expect modest improvement through the balance of 2026.

In paperboard, tighter market conditions supported sequential price improvement in the second quarter and are contributing to a firmer pricing outlook. Operationally, we remain focused on targeted improvements in reliability, productivity and cost improvement across our manufacturing network. We're also continuing cost recovery actions where commercially and contractually appropriate while maintaining a disciplined capital allocation.

Together, these actions are intended to mitigate the inflationary pressure and improve cash generation. We continue to advance appropriate trade actions to support fair and competitive conditions in RYAM's U.S. markets. During the third quarter, USTR announced final Section 301 actions covering imports from Brazil and Norway, including an aggregate 37.5% tariff on Brazilian imports of dissolving wood pulp and 12.5% tariff on Norwegian imports of dissolving wood pulp.

The ultimate impact will depend on several factors, including the availability of downstream trade programs and other applicable regulatory mechanisms. Separately, the antidumping and countervailing duty proceedings remain active with preliminary antidumping duties on imports from Brazil and Norway and preliminary countervailing duties on imports from Brazil. Final determinations are expected later this year.

As Marcus noted, we are also monitoring recently announced tariffs on certain Canadian origin products and engaging with policymakers. We have developed operational and commercial actions that can be implemented as appropriate if tariffs take effect as announced. More broadly, our strategic focus remains centered on strengthening our high-purity cellulose platform. Product innovation and select biomaterials opportunities provide additional paths to value creation.

We will continue advancing these opportunities selectively with a focus on attractive investment economics, customer commitments and disciplined capital deployment. One example is RYAM's capital-light interest in Altamaha Green Energy project through its land and prior investments, preserving potential upside without requiring additional cash equity from the company.

Taken together, the commercial operating cost and capital actions underway support our expectations for improved performance in the second half and are laying stronger earnings and cash generation foundation for 2027 and beyond. We recognize that significant work remains. Certain end markets continue to be challenged. Our leverage remains elevated and performance across portions of the portfolio must improve.

Nevertheless, the opportunities I've seen since joining RYAM reinforce my belief that the company has a valuable foundation and meaningful potential that is not fully reflected today. Our focus is clear: conclude the strategic review with urgency and discipline, deliver the expected second half improvement, generate cash and ensure that the path ultimately selected captures the full value of this unique platform for our shareholders.

With that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Daniel Harriman of Sidoti.

Daniel Scott Harriman
Sidoti & Company, LLC

Dan, I'll start out with you. And I know you touched on this in your remarks, but we do have to ask why and why RYAM. And I guess, specifically, what is it about what you've seen so far, along obviously, with your prior experience that gives you confidence you can really unlock value here for shareholders, whether that value is ultimately realized through a strategic review or operating RYAM as a stand-alone company.

And then Marcus, to you, what should we expect to any more detail you can provide regarding CS volumes in the second half? And what does that path imply for full year free cash flow? And I guess also, as you think about the 2027 debt maturing, how important is delivering that free cash flow to positioning the company to refinance on better terms prior to the 2029 maturity?

Daniel M. Krawczyk
CEO, President & Director

All right. Daniel, it's nice to meet you. I appreciate the question. I'm sure it's a question that's on the minds of a lot of folks out there. I'll start out why I was hired. I think there are 2 different things, why I was hired and why I joined the corporation. Why I was hired was to maximize shareholder value by supporting the rigorous strategic review process and continuing to strengthen the business during that process. That ultimately will give us the best flexibility to maximize value for our shareholders.

Why I joined the corporation? Again, looking at the end markets that we serve, we have very strong end markets with varying degrees of growth and opportunity, but we provide really critical products to those end markets. We have a strong Cellulose Specialty platform that is spec'd into many of the products and the functionality of the end products as well as the processability of their products, so again, a strong specified position in Cellulose Specialties, driven by technical expertise and performance in the end products.

That also requires us to support our commodity cellulose products, and that means being an efficient operator. So with that strong spec'd position and that stickiness with the customers, I looked at the opportunities, the tangible opportunities to improve the performance of this corporation. Ultimately, I looked at the commercial execution. I believe there's opportunities to further solidify our commercial execution and how we go to market and partner with our customers to provide stability, security of supply and enhance the growth of the end products.

I also saw a whole stable of operational improvements where we can continue to improve the performance of our assets and deliver better profitability. And there are lists of projects that I think are out there, and these are very closely linked with our commercial execution. If we can build the assets with the right products, we can reduce our yield losses and improve our operations and provide more money to invest.

And then I look beyond the base of the business, and I look at the upsides of our byproducts. We have a proven biomaterials investment to date in both France and coming online with the Altamaha Green Energy project. And we have more opportunities where we can leverage our infrastructure and our assets to grow into new end markets, whether it's CTO or prebiotics or other biomaterials.

So overall, this is a strong match for my background in terms of running specialty businesses that require growth, restructuring, as well as evaluating strategic alternatives as well as transactions.

Marcus J. Moeltner
CFO & Senior VP of Finance

Dan, thanks for the question. Yes, if I think about HPC and your positive free cash flow comment, we feel good about the momentum on HPC. As you saw, adjusted EBITDA of $57 million in Q2 versus the $24 million that we printed in Q1. And also, that was on the backdrop of strong pricing, up 21% year-over-year and a nice rebound in volumes, 19%.

Our line of sight on volumes for the back half, I think is something in the range of 10% to 15% improvement on volumes and continuing to carry a nice customer and product mix. But it's going to take more than just the CS business. We'll see some benefits on commodity pricing in HPC as well, but certainly, paperboard and high-yield pulp performance, we're relying on the new product pipeline to be additive to the results up in Temiscaming. And then we'll also be focused on working capital for the balance of the year and being mindful on our discretionary spending as it relates to G&A.

I think executing against all those priorities are really the focus such that we can position the business looking forward for refi ultimately. It will all be dependent on operating performance, capital market conditions and the outcome of the strategic review, but it's incumbent on us to be focused on driving our LTM EBITDA back to a level where we can access both public and private markets.

Operator

Your next question comes from the line of Matthew McKellar of RBC Capital Markets.

Matthew McKellar
RBC Capital Markets, Research Division

First, assuming the significant new U.S. tariffs on Brazil and Norway persist and stack on the existing duties, how do you see that as impacting the CS market, maybe the U.S. acetates market specifically as you think about that 37.5% in Brazil through the balance of this year, but also into next? How do you see it playing out? And how do the duties and tariffs affect your strategy?

Daniel M. Krawczyk
CEO, President & Director

Great. Thank you, Matthew, and I appreciate the question. Again, just to remind everybody, the USTR announced final Section 301 actions that include a 37.5% tariff on the Brazilian dissolving wood pulp and 12.5% tariff on the Norwegian dissolving wood pulp. The separate antidumping and countervailing duties proceedings continue to remain active. If sustained, these actions would provide fair, more competitive conditions for qualified U.S. suppliers, including acetate and other Cellulose Specialty applications.

Ultimately, the outcome of that will depend on the availability of other downstream trade programs and regulatory mechanisms. Ultimately, as we look forward, we need to make sure our customers are successful, but that we are operating on a level playing field. So if they come to fruition, we believe it will continue to improve the competitiveness of our assets and provide for a better level playing field, but it's certainly subject to other regulatory mechanisms.

Matthew McKellar
RBC Capital Markets, Research Division

Maybe next for me, on CS volumes, how are you thinking about potential for churn in your business as you get into the next contract year? Just wondering how you think about that volume trajectory into '27 and whether you expect any portion of customers to evaluate alternative supply with, I guess, the pricing strategy you've been running?

Daniel M. Krawczyk
CEO, President & Director

Yes. So as we look into 2027, again, we're seeing good momentum going into the third and fourth quarter for our business in terms of getting additional volumes in place. And as we look at -- as we think about our customers, they're always evaluating alternatives. The value that we bring is we bring the broadest range of products for our customers. So if you look at ethers, we provide a full range of products across our various assets that can serve a variety of different needs.

And again, as we look forward, we believe that the opportunity is to provide additional stability and certainty around the assets that -- or the products that we produce. And that is done through long-range contracts, partnerships and growth opportunities with those customers. So we see the customers, in general, having improving quarterly outlooks as they look into the third and fourth quarter.

And our goal is to provide additional stability. While pricing has been a main focus of the discussions this year, we believe that those relationships remain intact. They're decades old in terms of relationships with our primary customers. And we'll -- ultimately, we believe we can solidify those with longer-term agreements.

Matthew McKellar
RBC Capital Markets, Research Division

Great. And if I could just sneak one last one in regarding the Section 338 tariffs on paperboard. Would you be willing to disclose, I guess, what your share of shipments is into the U.S. at this point? And is there any other color you can provide around the options you have to adapt if the tariffs end up taking effect and persisting for some time?

Daniel M. Krawczyk
CEO, President & Director

Again, when we look at the tariffs surrounding our paperboard products, it has the potential to materially impact the economics of our paperboard and high-yield pulp business. When we look at the share that we ship into the U.S., think about roughly about 75% of our volume of paperboard is sold into the U.S. In terms of actions that we're taking, we're actively working with the policymakers to assess the final scope of the tariffs and timing and regulatory actions that are available to us, both in Canada and the U.S. And then we're working on the expected commercial actions with our customers to understand how we can offset those as well as operational responses that we can take to mitigate any negative effects on the business.

Operator

[Operator Instructions] Your next question comes from the line of Dmitry Silversteyn of Water Tower Research.

Dmitry Silversteyn
Water Tower Research LLC

Quick question, Dan. I was intrigued by your comment on nitrocellulose opportunity. Obviously, defense spending is front and center given what's going on in the world. Can you talk a little bit about sort of what the magnitude of the opportunity is, what products you already have qualified and what you're doing to get bigger in that market?

Daniel M. Krawczyk
CEO, President & Director

Great question, and good to meet you, Dmitry. Again, in terms of nitrocellulose, RYAM is in a unique position. We remain as the sole remaining U.S. supplier of dissolving wood pulp nitrocellulose applications. And we're proud to be part of the U.S. defense and industrial base supporting our supply chains, both in the U.S. as well as NATO.

When we look at nitrocellulose, it's a unique product. It's a mission-critical feedstock for defense and energetics applications. It requires exact impurity, consistency and performance requirements and ultimately is a critical part of the overall defense supply chain. We are -- again, as we look at our asset base, we continue to look to actively qualify other grades across all of our different facilities to provide security of supply and flexibility for the Department of War and its efforts to improve the supply chain.

And it's an extremely valuable part of our overall Cellulose Specialties product mix. So again, very important, very exact in grades of cellulose that are required to deliver this performance. So critical asset, critical to RYAM, critical to U.S. and critical to NATO.

Dmitry Silversteyn
Water Tower Research LLC

Understood. That's a very interesting new market for you or new market for you, I guess. Just switching gears a little bit. Looking at your Paperboard and high-yield pulp division, you've had higher production, higher volumes, good utilization rates, but the business is still delivering negative EBITDA. What needs to happen either operationally or in the economy or in the end markets for you to close that gap and actually get this business to modest levels of profitability?

Daniel M. Krawczyk
CEO, President & Director

Again, tariffs aside, looking at the business, we're looking at a meaningful step-up in the second half of this year. So it's really dependent on execution. And the primary levers of our execution are commercializing our new high-value products and freezer board, oil and grease resistant board as well as the high-yield wrappers and rolled softwood high-yield pulp for absorbent applications.

We are seeing some tightening in the paperboard market, so we're getting a little lift from the market itself as utilization rates tighten. So that will certainly help us. But we're really tracking the qualifications and recurring orders and shipments so we can realize the margin from these new products. So we'll be keeping a close look -- our eye on the execution of these new products and ensuring that they're gaining the right traction in the market to be successful and mitigate the losses from the first quarter.

Dmitry Silversteyn
Water Tower Research LLC

Understood. And then final question, switching back to Cellulose Specialties. You had a price increase sequentially after a pretty strong move in the first quarter. So was that a function of mix, or was that a function of signing contracts in the second quarter that were even higher priced than what you did in the first quarter? Just trying to understand where the direction is for pricing as we move through the balance of the year.

Marcus J. Moeltner
CFO & Senior VP of Finance

Dmitry, thanks for the question. It was a combination of a couple of things. There's both a greater proportion of our higher-value Cellulose Specialties, so there's definitely that product mix, but there was also some customer mix and then the benefits of the pricing discussions. So it was a great quarter as far as all those attributes together. And again, looking forward, we feel, as you -- as I indicated, the volume piece, 10% to 15%, while carrying good pricing and nice mix, probably more weighted in the back half to other CS grades, but we feel good about that outlook.

Daniel M. Krawczyk
CEO, President & Director

And I'd add Dmitry, too, as we continue to produce more CS grades, think about it as pushing out the more commoditized cellulose commodities. So there's different grades of cellulose commodities in our spectrum as we continue to upgrade our Cellulose Specialties mixes, those will drop off, and that has a positive effect as well.

Dmitry Silversteyn
Water Tower Research LLC

Congratulations on the second quarter in a row that you beat expectations. Good trend to continue.

Operator

Thank you so much. I'd now like to hand the call back to Dan for closing remarks.

Daniel M. Krawczyk
CEO, President & Director

Great. Thank you again for your time today and continued interest in RYAM. The strategic review remains a top priority of the company. We expect to conclude the review and communicate a clear path during the fourth quarter.

Our second quarter results demonstrated strong sequential improvement, and our full year trajectory remains aligned with our prior expectations. We remain focused on disciplined execution, strengthening the performance and financial position of the business and maximizing the value of our -- for our shareholders. We look forward to updating you on progress during the next quarter. Thank you.

Operator

Thank you for attending today's call. You may now disconnect. Goodbye.