INTERNATIONAL PAPER (NYSE: IP)

Sector: Industrials | **Industry:** Paper & Packaging | **Country:** United States
Current Price: $36.00 | **Market Cap:** $19.0B | **52-Week Range:** $35.86 - $60.36 | **YTD:** -33.11%

International Paper manufactures corrugated packaging and containerboard products, operating 140 facilities across North America, Europe, Latin America, and North Africa. The company produces the boxes used to ship consumer goods, representing approximately 18% of North American containerboard capacity.

Recommendation: SELL
Time Horizon: 6-12 months

EXECUTIVE SUMMARY

International Paper faces an imminent liquidity crisis that will force painful choices in 2026-2027: cut the dividend, issue expensive debt, or pursue strategic alternatives. The stock has fallen 40% from $60 to $36.00 following disastrous Q3 earnings, but has another 15-25% downside as the market fully prices in the $3.7 billion funding gap and inevitable dividend cut.

The Core Problem: The company has $3.2 billion in debt maturing over the next two years and pays $990 million annually in dividends, while burning $100-300 million in cash. Even after selling the cellulose fibers business for $1.5 billion, they face a $3.7 billion shortfall with no clear path to fill it. This is not a turnaround story—it's a race against bankruptcy that management is losing.

Why Management Can't Fix This: New CEO Andy Silvernail (18 months) and CFO Lance Loeffler (9 months) are attempting eight simultaneous major initiatives—DS Smith integration, 80/20 transformation, mill closures, workforce reductions of 3,600+, business unit divestitures, and European turnaround—during the worst industry oversupply in 20 years. They're discovering problems quarterly rather than fixing them.

WHAT HAPPENED: THE OCTOBER 30 DISASTER

On October 30, 2025, International Paper reported Q3 results that caused a 10-12% stock crash:

- **Missed profits significantly** despite maintenance costs running $55 million below expectations (implying core business missed by ~$100M)
- **European operations (DS Smith acquisition) underperformed substantially** with management admitting "cash-basis losses" in some facilities
- **Cut guidance across all timeframes:** Q4 by 7%, Full Year 2025 from $3.3B to $3.0B EBITDA (-9%), and 2027 target from $5.5-6.0B to $5.0B (-13%)
- **Shocked markets with negative free cash flow guidance:** -$100M to -$300M for 2025 (was expected positive)

- **Demand collapsed:** Box shipment trends reversed sharply—a devastating swing in a mature industry where volume stability is expected

JPMorgan immediately downgraded the stock and warned that even the reduced guidance looks too high, with consensus needing to fall further.

Market softness has cost the company more than $500 million in lost profit in 2025 alone, with management now expecting to push the full transformation opportunity out to 2028.

THE LIQUIDITY CRISIS: A $3.7 BILLION HOLE

Here's the simple math that makes this investment un-ownable:

What They Owe (2026-2027):

- Debt maturing: **$3.2 billion** ($905M in 2026, $2.3B in 2027)
- Dividend payments (2 years): **$1.98 billion** ($990M annually)
- Minimum maintenance capex: **$1.6 billion**
- **Total cash needed: $6.8 billion**

What They Have:

- GCF business sale: **$1.5 billion** (one-time)
- Operating cash flow (optimistic): **$1.6 billion** (2 years)
- **Total available: $3.1 billion**

The Gap: **$3.7 BILLION SHORT**

The Impossible Choices:

Every option destroys shareholder value:

1. **Cut Dividend** → Stock falls 20-30%, income investors flee (probability: 70%+ by late 2026)
2. **Expensive Refinancing** → High-yield rates of 8-10% vs. current 5%, adds $100M+ annual interest
3. **Dilutive Equity Raise** → Issue 80-100M shares at terrible valuation (already diluted 50% with DS Smith)
4. **Fire Sale Assets** → Sell core businesses at distressed prices
5. **Strategic Alternatives** → Polite term for "find a buyer before bankruptcy"

The company's credit rating (Baa2/BBB) sits at the low end of investment grade. A downgrade to junk status would trigger forced selling, spike borrowing costs, and potentially violate debt covenants. With continued losses, a downgrade is likely within 12-18 months.

The Altman Z-Score (financial distress measure) has collapsed from 2.57 to 1.85—anything below 1.81 signals high bankruptcy risk within 2 years. With Q3's $1.1 billion loss and negative cash flow, the score is heading to 1.5-1.6 range, firmly in distress territory.

WHY THE STOCK FALLS FURTHER FROM $36.00

Despite already falling 40%, International Paper still trades at a premium valuation that appears unjustified given the company's deteriorating fundamentals and liquidity crisis. The stock trades at approximately 8.8x forward EV/EBITDA while facing negative free cash flow, multiple guidance cuts, and structural challenges that peers don't share.

When IP re-rates to more realistic multiples reflecting its distressed condition:

- At 6.0x on $3.8B EBITDA → ~$33/share (10% downside)
- At 5.7x (closer to distressed valuations) → $28-30/share (20-25% downside)

The current valuation reflects residual optimism about the transformation story. As that hope fades through 2026 with continued negative cash flow and missed guidance, the multiple will compress to match the distressed reality.

THE DS SMITH ACQUISITION: BUYING PROBLEMS

In January 2025, IP closed the $7.2 billion all-stock acquisition of DS Smith (European packaging company), issuing 180 million new shares and diluting shareholders by 50%.

The Red Flag: Management increased synergy targets from $514 million to $600-700 million after closing the deal. While this sounds positive ("we found more savings!"), in M&A it's almost always a warning sign that:

- The standalone acquired business is performing worse than expected
- Management needs to cut deeper just to hit their original financial projections
- They're retroactively trying to justify an expensive acquisition

The Evidence: Q3 European operations missed expectations by 23% with admitted "cash-basis losses"—meaning some facilities lose money every day they operate. This confirms the acquisition added $2+ billion in troubled assets. The increased synergy targets likely reflect management's realization that DS Smith is worse than expected, requiring deeper cuts ($600-700M instead of $514M) just to make the deal work.

THE INDUSTRY CONTEXT: TOO LITTLE, TOO LATE

The containerboard industry has 40 million tons of excess capacity (11% above normal) persisting through 2027. Industry participants are cutting capacity (3.9M tons announced in 2025), and pricing may improve by late 2026.

But International Paper can't wait that long. The debt maturity wall hits in 2026-2027, before industry conditions improve. Even if pricing increases $90/ton as some analysts project, IP may have already been forced into dividend cuts, expensive refinancing, or strategic alternatives.

FINAL RECOMMENDATION

SELL

For Current Holders:

- Exit immediately on any rally above $38-40
- Position size should be <1% of portfolio given binary risk
- Consider protective puts if unable to sell due to restrictions
- Stop-loss at $32 to avoid riding to $25-28 in worst case

For Prospective Buyers:

- Avoid at current levels—patience will be rewarded with lower prices
- Re-evaluate only at $28-30 AND after evidence of: positive FCF for 2 quarters, no dividend cut, EMEA stabilization
- Short sellers who increased positions 30% post-crash likely see $25-30 target

Probability-Weighted Outcomes (12-18 months):

- **Bear Case (45% probability):** $22-30 → Dividend cut, credit downgrade, strategic alternatives
- **Base Case (35% probability):** $32-40 → Grinding through liquidity crisis, minimal upside
- **Bull Case (20% probability):** $45-55 → Everything goes right, but 2+ year wait

Risk/Reward: Terrible. You could lose $8-14/share (22-38%) or gain $9-19/share (25-52%), but downside is more than twice as likely.

KEY FACTS

Critical Metric	Current Reality
Liquidity Crisis	$3.7B funding gap 2026-2027; negative FCF vs. $990M annual dividend
Debt Maturity Wall	$3.2B due in next 2 years ($905M in 2026, $2.3B in 2027)
Stock Performance	Down 40% from $60 to $36; fell 10-12% on Oct 30 earnings
Cash Flow Crisis	Negative $100-300M FCF for 2025 (was expected positive)
Dividend Sustainability	$990M annual payout vs negative cash flow = impossible; 70%+ cut probability by late 2026
Guidance Credibility	Cut 3 times in 2025 (Q4 -7%, FY -9%, 2027 -13%); JPM warns more cuts coming
The Q3 Miss	Profits $43M below expectations DESPITE $55M cost savings
Europe Problem	DS Smith operations missed by 23%; cash-basis losses in some facilities
Box Shipment Reversal	Guidance went from +1.5% expected to -1.5% actual (3 percentage point swing)
Credit Risk	Baa2/BBB (low investment grade); downgrade to junk likely within 18 months

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Critical Metric	Current Reality
Financial Distress Score	Altman Z-Score 1.85 (approaching 1.81 bankruptcy threshold); trending to 1.5-1.6
Total Debt Load	$5.6B corporate + $2.1B non-recourse = $7.7B total obligations
DS Smith Synergy Red Flag	Targets increased from $514M to $600-700M (sign acquired business worse than expected)
Management Experience	CEO 18 months, CFO 9 months; no institutional memory during worst crisis in decades
Industry Oversupply	40M tons excess capacity (11% above normal) persisting through 2027

Bottom Line: International Paper has a $3.7B hole it cannot fill and faces inevitable dividend cut + credit downgrade. The stock at $36 is heading to $28-32 as reality sinks in. This is not a turnaround—it's a slow-motion liquidity crisis. **Avoid.**

RATING DEFINITIONS

Rating	Meaning
STRONG BUY	High conviction positive thesis; compelling risk/reward with clear catalysts
BUY	Favorable risk/reward with manageable risks; appropriate for portfolio allocation
HOLD	Neutral stance; unclear catalyst or balanced risk/reward in transitional period
SELL	Unfavorable outlook; better opportunities elsewhere; deteriorating fundamentals
AVOID	High conviction negative; significant downside risk; structural problems or financial distress

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Report prepared by Bradford Stanley, CFA
The Stanley-Laman Group, Ltd.
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Analysis based on public filings, earnings releases, analyst reports, and industry data available as of this date. International Paper Q3 2025 earnings were reported on October 30, 2025.