

International Paper: How Far Should the Company Go for DS Smith?

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Audience: MBA students and working professionals

This teaching case uses public information available by the cutoff. The executive working group and its assignment are hypothetical; no private meeting or actual IP board agenda is asserted.

The choice

On March 27, 2024, an executive working group at International Paper (IP) must advise whether to keep negotiating with DS Smith and prepare a firm offer, subject to a maximum exchange ratio and specific diligence gates, or to end discussions and pursue IP's standalone operating and capital-allocation plan.

The immediate challenge is not simply whether two packaging companies fit together. The group must decide whether the evidence available now justifies spending time and organizational attention on a possible transaction whose value depends on an unproven combination of operating efficiencies, customer retention, market conditions, and execution. If discussions continue, the group must say what evidence would support a firm offer and what exchange ratio would protect IP shareholders. If they stop, the group must explain what IP can accomplish on its own.

The public terms are unusually visible, but their status is easy to overstate. DS Smith announced that the companies were discussing a possible all-share offer. In its March 26 announcement, DS Smith disclosed possible terms of 0.1285 IP shares for each DS Smith share, implying that DS Smith shareholders would own approximately 33.8% of the combined company. DS Smith said its announcement was made without IP's prior agreement or approval. It also said the discussions were continuing, that no offer was certain, and that it remained in discussions with Mondi. The disclosed ratio is therefore a reference point for the working group's analysis, not an IP-approved term or an actual menu set by IP's board. [DS Smith possible-offer announcement, pp. 1-2](#)

A company at a cyclical and strategic crossroads

IP reported \$18.916 billion in 2023 net sales. Its Industrial Packaging segment generated \$15.596 billion in sales and \$1.266 billion in segment operating profit. Global Cellulose Fibers generated \$2.890 billion in sales and a \$17 million segment operating loss. These are company-reported segment measures, not EBITDA or free cash flow. Industrial Packaging is the center of the strategic question: would combining with DS Smith improve the reach and economics of IP's packaging network, or would IP pay for scale just as the market begins to recover? [IP 2023 Form 10-K, Item 7, pp. 32-34; Item 8, segment note, pp. 90-92](#)

IP's Industrial Packaging sales declined 11% in 2023 and segment operating profit declined 27% from 2022. IP attributed the result to lower average selling prices and unfavorable mix, lower volume, and higher operating costs. Lower input and outage costs provided partial offsets. The filing also described weaker demand and customer destocking. Those facts can support a case for improved utilization, purchasing leverage, and network coordination. They can also support a different explanation: performance may be recovering with the packaging cycle, so a costly transaction could transfer value to DS Smith holders while IP shareholders could capture a standalone rebound.

IP was already making operating changes. In December 2023, it permanently closed its Orange, Texas containerboard mill and stopped production on two pulp machines. The mill closure generated \$347 million in noncash write-offs and accelerated depreciation and \$81 million in cash severance and shutdown charges. At the same time, IP expected capital spending of \$0.8 billion to \$1.0 billion in 2024. These actions may improve the asset base over time, but they also compete for leadership attention and make it harder to separate existing savings from acquisition synergies. [IP 2023 Form 10-K, Items 1 and 7, pp. 4, 22-23; capital spending, pp. 4-5](#)

Scale across the Atlantic, with overlap on both sides

IP's industrial packaging business was weighted toward North America, but the company was not new to Europe. EMEA Industrial Packaging generated \$1.398 billion in 2023 sales and \$80 million in segment operating profit. IP also reported \$5.3 billion of international sales, including U.S. exports, equal to 28% of company sales. These figures show cross-border activity, but do not measure the size or economics of a European asset network on a basis comparable to DS Smith.

DS Smith was not absent from North America either. Its half-year results for the six months ended October 31, 2023 reported £300 million in North American revenue and £31 million in adjusted operating profit. The figures suggest potential reach and operating connections across regions, alongside existing overlap. They do not identify which plants serve which customers, where freight economics favor a combined network, or how much business could be lost through customer reactions or service disruption. The DS Smith profit figure is adjusted operating profit for a six-month period; it is not directly comparable with IP's calendar-year segment operating profit. [IP 2023 Form 10-K, Item 7, pp. 31, 34; DS Smith 2023/24 Half-Year Results, pp. 1, 4, 9-12](#)

DS Smith reported £3.513 billion in revenue and £365 million in adjusted operating profit for the six months ended October 31, 2023. Revenue declined 18% and adjusted operating profit declined 13% on a reported basis. It also reported £268 million of profit before tax and net debt to EBITDA of 1.7 times. DS Smith described lower volumes in a weak market while emphasizing productivity, customer relationships, and value-added packaging. The figures offer context on the target, but the different reporting period, currency, and adjusted-profit definition prevent a direct comparison with IP's segment results.

What the disclosed ratio implies

DS Smith's March 26 announcement used IP's March 25 closing share price of \$40.85 and DS Smith's February 7 close of 281 pence to state an implied value of 415 pence per DS Smith share, a 48% reference premium to the February 7 DS Smith price. Because the consideration described was IP shares and the prices came from different dates, 415 pence was not a guaranteed cash value. The implied value would move with IP's share price.

The ownership implication matters as much as the headline premium. On DS Smith's disclosed terms, its shareholders would own about 33.8% of the combined company and legacy IP shareholders about 66.2%. That allocation would make DS Smith shareholders participants in future combined performance while diluting IP holders' ownership. Whether that is attractive depends on the value and risk of the assets and synergies being combined, not on the premium alone.

DS Smith had another possible transaction path. On March 7, DS Smith and Mondi announced that they had agreed in principle on key terms for a possible all-share combination, implying 46% ownership for DS Smith holders and a 33% reference premium. That reference used February 7 prices for both companies. The 33% and 48% premiums use different reference dates and share prices, so the two headline percentages are not directly comparable. No firm offer was certain in either discussion. [DS Smith/Mondi announcement, March 7](#)

Cash, capital, and execution

IP generated \$1.833 billion of cash from operations in 2023, including discontinued operations, and spent \$1.141 billion on capital projects. IP's defined free cash flow was \$692 million; IP cautioned that this non-GAAP measure was not wholly available for discretionary use. Year-end debt was approximately \$5.6 billion. An all-share offer would limit cash paid as consideration at closing, but it would not remove dilution, integration spending, working-capital needs, or the possibility that additional capital competes with maintenance and growth investment. The disclosed debt balance alone does not establish financing capacity or covenant headroom. [IP 2023 Form 10-K, Item 7, pp. 29-30; Item 1A, pp. 13-14](#)

The working group needs evidence on both companies' physical networks and customers before it can distinguish scalable efficiencies from optimistic overlap assumptions. It also needs to account for antitrust review and possible remedies, customer retention, implementation costs, capital requirements, and the demands of integrating a large cross-border business while IP carries out its existing mill and cost actions.

Decision assignment

Advise the hypothetical executive working group. Choose one of two recommendations:

1. **Continue discussions and prepare a firm offer**, subject to a maximum exchange ratio and explicit diligence gates; or
2. **End discussions and pursue IP's standalone plan.**

Your recommendation should address:

- What strategic value could an IP-DS Smith combination create, and what evidence would distinguish that value from a cyclical recovery available to both companies?
- What overlap, customer, competition, and integration risks could reduce or reverse the expected benefits?

- What must be learned before a firm offer? Name the diligence workstreams, evidence required, and stop/go conditions.
- How should the working group set a maximum exchange ratio without inventing synergy forecasts? Explain which value components and risks belong in the calculation.
- What should IP do over the next year if it ends discussions?

Do not treat any unreported synergy estimate, target valuation, regulatory outcome, or later transaction event as fact. State assumptions and show where uncertainty changes your recommendation.

Selected exhibits

Exhibit 1. International Paper segment results

\$ millions, calendar year	2022 sales	2023 sales	2022 segment operating profit	2023 segment operating profit
Industrial Packaging	\$17,451	\$15,596	\$1,742	\$1,266
Global Cellulose Fibers	\$3,227	\$2,890	\$106	\$(17)

IP reported Industrial Packaging sales down 11% and segment operating profit down 27% year over year. Segment operating profit is the company's reported segment measure.

Source: IP 2023 Form 10-K, Item 7, "Business Segment Operating Results," pp. 32-34; Item 8, segment note, pp. 90-92.

Exhibit 2. IP cash and capital context

2023 / stated outlook	Amount	Definition / period
Cash provided by operations	\$1,833m	2023; includes discontinued operations
Capital spending	\$1,141m	2023
Free cash flow	\$692m	IP-defined non-GAAP measure; not wholly discretionary
Debt	Approximately \$5.6bn	At December 31, 2023
Expected capital spending	\$0.8-1.0bn	2024 outlook

Source: IP 2023 Form 10-K, Item 7, pp. 29-30; Items 1 and 1A, pp. 4-5, 13-14; IP full-year 2023 results, "Select Financial Measures."

Exhibit 3. DS Smith-disclosed possible IP offer and competing Mondi proposal

Item	Possible IP proposal disclosed by DS Smith, March 26	Possible Mondi combination announced by DS Smith and Mondi, March 7
Consideration / exchange basis	0.1285 IP shares per DS Smith share	All-share combination; key terms agreed in principle
Stated combined ownership for DS Smith holders	Approximately 33.8%	46%
Stated implied value / reference premium	415p / 48%, using IP March 25 close and DS Smith February 7 close	373p / 33%, using both February 7 closes
Status at cutoff	Possible offer; no offer certain. DS Smith said the announcement was made without IP's prior agreement or approval.	Possible transaction; no firm offer certain.

These reference premiums use different dates and are not directly comparable. The IP terms are DS Smith's disclosure of a possible proposal, not IP-approved or agreed terms.

Sources: DS Smith possible-offer announcement, March 26, pp. 1-2; DS Smith/Mondi announcement, March 7, "Key Terms."

Exhibit 4. DS Smith half-year results

Six months ended October 31, 2023	Reported amount
Revenue	£3,513m
Adjusted operating profit	£365m
Profit before tax	£268m
Net debt / EBITDA	1.7x
Reported year-over-year revenue change	(18%)
Reported year-over-year adjusted operating profit change	(13%)

DS Smith's adjusted operating profit is not directly comparable with IP's segment operating profit.

Source: DS Smith 2023/24 Half-Year Results, pp. 1, 9-12.