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FINANCIAL ACCOUNTING CASE STUDIES

by

John Batson

A thesis submitted to the faculty of the University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College.

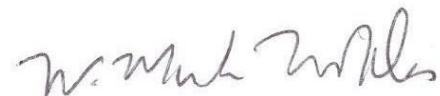
Oxford

May 2023

Approved by:



Advisor: Dr. Victoria Dickinson



Reader: Dean W. Mark Wilder

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John Andrew Batson Jr.

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ABSTRACT

This thesis was completed in the 2021-2022 academic year and is comprised of eleven accounting case studies. The topics from these cases vary widely and are not strictly focused on accounting. Examples of this includes cases done on the twenty-year anniversary of 9/11, the ramifications of COVID-19 on Pfizer, and having to interview a local business owner. We also completed cases concerning the city we wanted to intern in as well as an excel certification course. Following the conclusion of case 5, me and several other honors students worked together to complete the next six cases which involved analyzing International Paper. Topics we wrote on include the business structure of International Paper, audit risks facing the company and its controls, tax saving strategies, advisory opinions on the company's operations, and an assessment of cyber-security and other large threats facing the company. Even though no one in the group had taken either tax or audit, these cases allowed us to have our first exposure to these topics. After completing these cases, we put together the papers into a PowerPoint presentation which was then presented in front of several accounting professionals from different firms.

When our class was not working on a case, we had several speakers from different accounting firms speak to us. These interactions allowed us to get a head start on recruiting as well as make meaningful connections.

Case One: Minutes that Changed the Country

By: John Andrew Batson Jr.

15 September 2021

Introduction

On this day twenty years ago, the United States of America and its citizens were changed forever. September 11th of 2001 marked a turning point in our nation's history, as thousands of lives were lost and countless were altered due to the terror attacks on the World Trade Center, the Pentagon, and United Airlines Flight 93. This first case offered a unique glimpse into the grounds of New York City as the horrific events of the day unfolded. Seeing raw footage of people reacting to the crashes was bone-chilling. It is seemingly impossible to understand all that the people on site were experiencing in the moment, but the footage from this documentary gave me a sense of the hysteria experienced by those involved. Watching firefighters, police officers, and other first responders dive headfirst into the chaos filled me with sadness. However, it also left me with a sense of pride. Seeing these New Yorkers and first responders comforting each other and creating such a strong sense of unitedness would make anyone proud to be an American.

Witnessing this first case led me to further understand the darkness and despair of 9/11. Considering that I was not even a year old, my comprehension and perspective of the event at its time of occurrence was not representative of its gravity. In fact, they were probably not properly informed viewpoints until viewing this first-hand visual. To say my horizons regarding the event have broadened since engaging with this documentary is an understatement. 9/11 was such a traumatic event for its victims as well as those simply viewing from their television or listening on the radio. The raw footage of firefighters and police officers rushing into the unknown, displayed the sacrifice they made on that day for their country. Citizens not directly harmed were also prudently making sure others were safe and providing comfort to those most affected. From viewing the documentary, I could tell that the people of New York City, whether they were right by the towers or a few blocks away, knew

they were going to be resilient and come out stronger despite these terror attacks. By the end of it, I had come to understand the ramifications of 9/11 and why the effects of it still resound to this day.

Body

Who would have guessed that 102 minutes in New York City would unexpectedly alter the United States of America so drastically that we are still feeling the effects of it 20 years later? Yet here we are remembering the tragedy that took place on September 11th, 2001. The documentary presented to us in this first case study was not the typical documentary, in that no narrator guided the audience through the film. In this particular documentary, 102 minutes of raw, unedited footage was shown portraying the terrible events from the time of the first plane crash to the time the second tower collapsed.

After the first plane crashed, the grounds of New York City seemed relatively calm for such a chaos-filled event. Some of the commentary revealed that at the time, many believed the first crash was merely an accident. Others thought that there was an explosion in the building. Many people were, of course, evacuating from the general area. Spectators who were farther away from the scene were looking up at the sky while heading in the opposite direction of the crash. As a viewer watching with the knowledge of the crash, I had a sickening feeling knowing what really happened as well as what was about to go down. It was also extremely hard to watch people jumping off the building as a last-ditch effort to survive. A pit formed in my stomach knowing that there were innocent humans who were faced with the choice of dying due to the extreme heat or dying from the dangerous jump. Showing up to work that day was the only reason they were faced with this nauseating decision. As I was watching, I tried to imagine what I would do in said situation, but I could not ponder on it for too long due to the sheer gruesomeness of the situation. Seeing the people on the streets after the first crash

looking confused and in utter shock was both interesting and disheartening at the same time.

When the documentary played the first angle of United Airlines Flight 175 crashing into the second tower, I experienced feelings of intense anxiousness and dread as the plane approached the buildings. Learning that people in the other tower had sheltered in place thinking that the first plane was an accident heightened my sense of dread. Little did they know that 17 minutes later their lives would be drastically altered. People on the street and in apartment buildings were beyond shocked when they either saw or heard the second crash. As the minutes wore on suspicion that the planes were hijacked began to grow. When these suspicions were finally confirmed, people frantically evacuated their office and apartment buildings. Dr. Dickinson mentioned that the hijackers had chosen flights that were nearby so that the planes would have as much fuel as possible for maximum destruction. The thought of this is unsettling and fully displays the hijackers blatant disregard for human life. While the first crash left me with an extreme sense of fright, the second crash seemed to resonate with me more, as it exponentially increased the magnitude of the whole event.

I cannot even begin to imagine the panic some people must have felt trying to get in touch with loved ones that day. Even if they were almost certain that their family member or friend was ok, each ring that passed must have felt like an eternity. I also had to keep in mind while watching that this event took place when not everyone had a cell phone. It was difficult to watch people rushing to get in contact with someone while the twin towers burned in the background. It must have been especially excruciating for anyone that was close to the towers. I imagine spectators were praying and hoping that the people hanging from the towers were not people they knew. I struggle to understand how helpless the bystanders must have felt seeing someone live the last moments of their lives. The trauma that stems from seeing something this disturbing is indescribable and truly sheds light on the darkness of the situation.

The first tower collapsing solidified 9/11 as one of the worst days in United States history. Already the day had felt so defeating, so watching people have to witness the tower collapse was heart wrenching. It was also extremely tough to watch regular people running as fast as they could to escape the dust and debris. People racing to escape the reach of the dust cloud was almost symbolic of how no matter how hard you run, no one was able to escape the tragic events of that fateful day. The scene from after the tower fell was disastrous. The grounds around the towers were unrecognizable and looked apocalyptic. While regular civilians were rushing to safety, first responders were running to assist as many people as they could. The footage truly showed how heroic these people were, as there was no way they could see more than 30 feet in front of them. Not only was the dust a huge burden, but debris was falling every which way, making it nearly impossible to be completely out of harm's way. The bravery of these men and women needs to be remembered and honored for the rest of time.

Further showing the craziness of the whole situation was the dialogue during the collapse of the towers. During the documentary, we were shown clips where people were arguing whether the tower had collapsed, or the smoke from the other tower was making it not visible. The whole point in my bringing up this situation is to discuss how the raw footage is able to show the genuine reactions of people. While reflecting on 9/11, we realize the sadness and how terrible the whole thing was for America. The uncut footage allows us to see the different ranges of emotions on display. During each critical juncture of the documentary, I tried putting myself in the shoes of the people who were experiencing these moments in real time. Most people my age have only viewed 9/11 through various news clips or newspaper articles. I felt the footage shown in class was so powerful, due to it peeling back a layer of 9/11 I had never explored.

Relating to accounting, it was awfully discouraging knowing that one of the flights

coming from Boston had several new PricewaterhouseCoopers (PwC) hires who were headed out to Los Angeles for training. Currently, I am entering the beginning of the accounting recruiting process. I am more than excited to go through this process and see which city I will be able to call home. I know the new hires at PwC were teeming with excitement for training, when they had it all taken away from them due to the evilness of the terrorists. While the first responders are the immediate people that come to mind when recalling 9/11, and rightfully so, the new hires need not to be forgotten. Also, not to be forgotten, are the people who were working in the buildings. According to Dr. Dickinson, about 25 percent of people in the towers had accounting degrees and about 25 percent had finance degrees. Most everyone was in for another mundane day at work, when suddenly they would never have the chance to make the commute home to their families ever again. Lives pointlessly lost due to the extremism of a group is a hard notion to swallow.

Towards the end of the documentary, I noticed a change in emotion from the people of New York. New Yorkers watching the damage from various points such as Times Square or Staten Island began to iterate very similar sentiments. The lady shown on Staten Island was suggesting that America should go to war. The man in Times Square went even further to say America should go blow up the Arab countries. Obviously, this is a very sensitive topic that is still being debated over today. However, in this moment, I do not blame these people at all for having strong feelings. I know I would feel similarly if I were to witness such terrible devastation in the city I lived in and in the country I loved. It is also hard to criticize George Bush for taking action and going to war as a result of this event. It is easy to look back 20 years and say that this war has been a waste of resources, and numerous lives have been lost for nothing. This is especially relevant with the recent withdrawal of troops from Afghanistan. However, after watching the documentary on 9/11, I felt President Bush was justified in

uniting the nation and going to war against terrorism. If I had strong feelings about it after simply watching a documentary, I can only imagine what people felt who were there that day or were watching from a television. These incidents felt like not only an attack on our nation, but also an attack on the values for which this nation stands. Watching the firefighters, police, and civilians struggle to breathe from all the dust only strengthened my sentiments that the war on terror was necessary, at that time. No matter what your stance is on the war in Afghanistan, everyone can agree that the events of 9/11 rightfully propelled a strong sense of unity within America.

Another takeaway I had from watching the documentary, was realizing how precious life is and how every second matters. You always hear the cliches of making every second count or living life to the fullest, but this documentary made those sayings ring true for me. During the chaos of the collapse of the towers, one man was seen talking on the phone saying that Monday Night Football had saved his life since it had made him late to work. If he had shown up on time, he never would have been able to make that phone call to a loved one. Moments like these really put into perspective how nothing should be taken for granted. Unexpectedly, lives were changed forever and so many people were never able to say goodbye to people that meant so much to them. That is heart wrenching to imagine and makes me want to try to be the best person I can be going forward.

Overall, this documentary was very enlightening on numerous fronts. I had realized the significance of the 20-year anniversary of 9/11, but not to the same extent I did after viewing the documentary. I now understand why every 9/11 anniversary, firefighters walk up the same number of stairs with their full gear as their firefighter brethren did on that fateful day. The ramifications of 9/11 were and are bigger than just that single day. How we honor and respect it going forward will determine the prospects of this great country.

“On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized

help on this case.” Signed _____

A handwritten signature in black ink, appearing to read "James R. Patton". The signature is written in a cursive style with a large initial "J".

John Andrew Batson Jr.

Design Your Life

06 October 2021

Introduction

Dallas, Texas is a premier city in our nation in my opinion, and I would venture to say that as an iconic component of the South, its 1.3 million residents agree. Through this second case, my group was able to delve into all the factors that make Dallas so attractive to young professionals such as ourselves. The city offers numerous forms of entertainment, competitive schools, as well as a wide range of healthcare options. Dallas is home to one of the country's biggest airports, allowing for easy access to just about anywhere one might need to visit for business purposes or otherwise. In addition to these perks, Dallas has pleasant weather for most of the year. Having lived in the Southeast my entire life, Dallas's weather will require no adjustment for me. The job industry in Dallas is seeing no shortage of openings for great positions. With a multitude of prominent companies based there, there should be no trouble finding a job with an accounting degree in that type of market. The only worrisome aspect about the city is prevalent crime. However, I am from a city with a crime rate even higher than there, so I know how to avoid dangerous situations when possible. The positive attributes of Dallas outweigh the negative ones, which is why I hope this city is where I can embark on my accounting career.

Living only three hours from Dallas, I am relatively familiar with the city and what it has to offer. However, this case allowed me to learn specifics about the city that I did not know. Dallas is home to a variety of different industries and is not too reliant on any particular one. As a Louisiana native, I have seen how being too dependent on the oil industry can damage a state's economy. As Dallas is home to the headquarters of AT&T, ExxonMobil, and American Airlines, there is strong

indication that Dallas's economy will be strong well into the future. I plan to live in Uptown which I have learned is close to several prominent accounting firms in Dallas. I was worried about having an overly strenuous commute knowing how far the city spans but seeing Uptown's proximity to the firms decreases this concern.

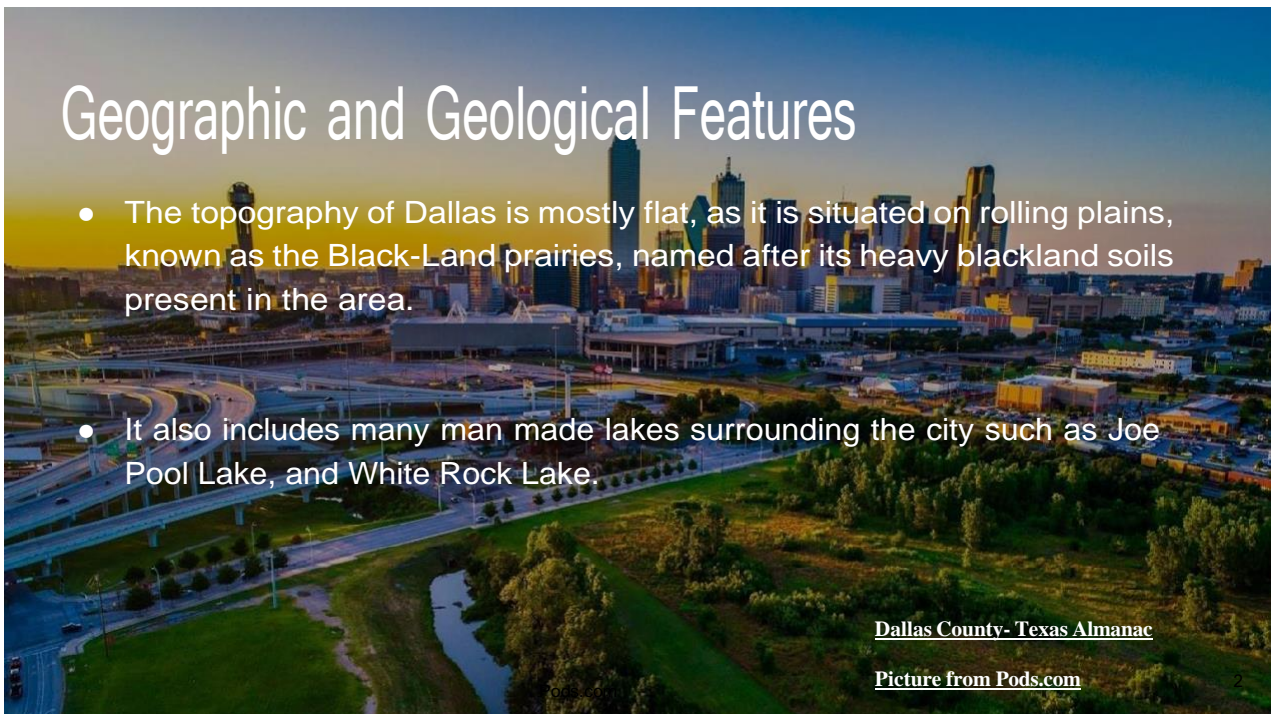
After completing this case, I am very excited about choosing Dallas as my preferred city. Visiting a city and living in it are two different things, so I was interested to see what life is actually like in the city. Learning about what makes Dallas such a popular southern city only furthered my wish to live there. My original thoughts on the city were confirmed throughout the workings of this case, and I could not be more enthusiastic about potentially working in Dallas.



Dallas, Texas

Banks Robinson, Elizabeth Shirley,
Spence Graves, Jack Batson

Picture from Joe Daniel Price/ Shutterstock



Geographic and Geological Features

- The topography of Dallas is mostly flat, as it is situated on rolling plains, known as the Black-Land prairies, named after its heavy blackland soils present in the area.
- It also includes many man made lakes surrounding the city such as Joe Pool Lake, and White Rock Lake.

Dallas County- Texas Almanac

Picture from Pods.com

Climate

- Summers in Dallas tend to be in the mid-to-high 90s around noon while winter temperatures rarely drop below the mid-20s. Fall and Spring average very mild temperatures.
- Snow in Dallas is rare, but every few years, normally in February, the city will experience a few snow days. The city averages about 37 inches of rain throughout the year.
- As we are all from the south, adjusting to the Dallas climate would not be a challenge. It might even be a nice change of pace to have less humidity.

Dallas: Geography and Climate 3

Industries

The largest and most prevalent industries in Dallas:

- Oil & gas
- healthcare,
- technology
- financial services
- food

The five largest companies headquartered in the DFW metropolitan area:

- McKesson
- ExxonMobil
- AT&T, Energy Transfer
- CBRE Group

Along with these companies, Dallas has many other companies in the Fortune 500 headquartered there.

Dallas Fortune 500 Companies

Picture from about.att.com 4



Transportation Around the City

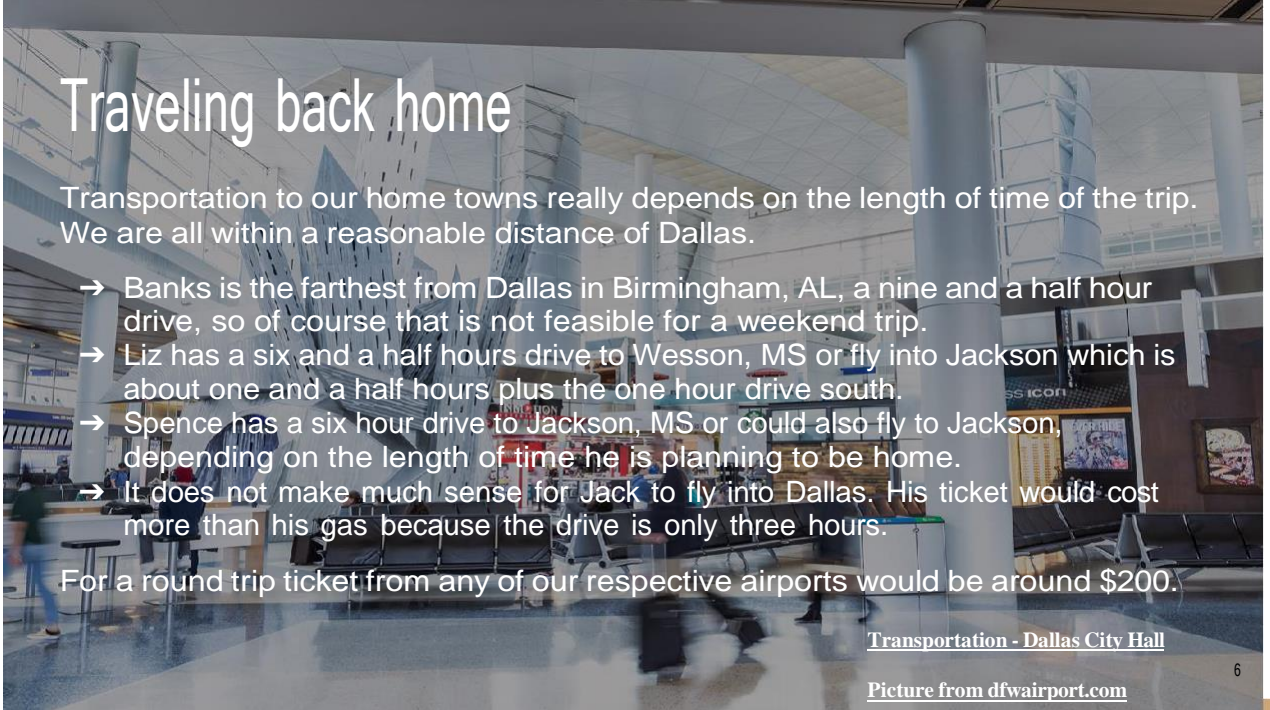
Dallas is a very spread out city along with the rest of the metroplex. Majority of people in the city use a car as their preferred transportation method.

Two other methods of transportation in Dallas are:

- Dallas Area Rapid Transit (DART) -connects downtown Dallas to surrounding suburbs using both bus and train systems.
- Trinity Railway Express -connects the downtown Dallas Union Station and Fort Worth along with many cities in between.

Getting Around Dallas: Guide to Public Transportation

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Traveling back home

Transportation to our home towns really depends on the length of time of the trip. We are all within a reasonable distance of Dallas.

- Banks is the farthest from Dallas in Birmingham, AL, a nine and a half hour drive, so of course that is not feasible for a weekend trip.
- Liz has a six and a half hours drive to Wesson, MS or fly into Jackson which is about one and a half hours plus the one hour drive south.
- Spence has a six hour drive to Jackson, MS or could also fly to Jackson, depending on the length of time he is planning to be home.
- It does not make much sense for Jack to fly into Dallas. His ticket would cost more than his gas because the drive is only three hours.

For a round trip ticket from any of our respective airports would be around \$200.

Transportation - Dallas City Hall

Picture from dfwairport.com

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Commuting to Work

Majority of the big accounting firms are located in downtown Dallas or the neighboring Victory Park neighborhood which provides a short commute from Uptown. The Uptown Area is also relatively walkable, so a walk or bike ride are other options on nice days. However, Dallas was recently placed as the seventh worst city for traffic according to a study from Texas A&M. Average commute times for Dallas and the surrounding suburbs average around 24 to 29 minutes. Coming from anywhere outside the immediate vicinity of downtown might prove burdensome.

[Dallas stuck on maddening list of top 15 cities with worst traffic in 2020](#)

[Dallas-Fort Worth cities have longest commute times in Texas, and Garland is congestion king - Dallas Business Journal](#)

Organizations

Charitable organizations to get involved in:

- Ronald McDonald house
- Dare to Dream mission
- Jubilee Park (a volunteer service that helps provide support and better education to citizens in South Dallas).

Churches:

- Lakewood Presbyterian
- Holy Trinity Catholic Church
- Crossroads Community Church

[Dallas, TX Nonprofits and Charities | Donate, Volunteer, Review](#)
[Jubilee Park Community Center - Dallas](#)

Sports and Entertainment

Dallas is the perfect city if you are an avid sports fan. It is the home to many professional sports teams such as the Mavericks, Cowboys, Rangers, Stars, and it's MLS team, FC Dallas.

It also has many entertainment events, especially concerts. Anytime a big name performer goes on tour, they always stop in Dallas for at least one night.

- Jack would love to see Pitbull (Mr. Worldwide) at AT&T stadium.
- Banks would like to see Post Malone at Posty Fest.
- Spence would like to see John Legend at the Trust Theatre.
- Elizabeth would like to see Madison Beer at the HiFi.

There are plenty of other activities that you can go to everyday. They have a great city zoo, many public parks, museums, a botanical gardens and a massive city wide farmers market.

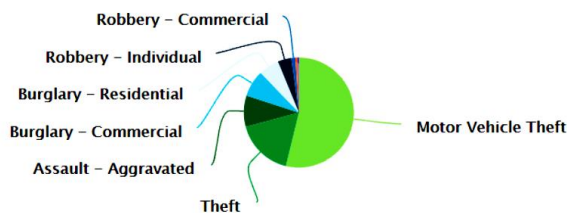
Big concerts are returning to DFW.
Here are the biggest

Crime

The crime rate in Dallas is very high, as it is 68% above the national average. The most common crimes have been theft, particularly property and vehicle theft. Violent crimes are currently increasing, including robbery, assault, and homicides.

The areas with the most crime:

- South Dallas
- Cedar Crest
- South Boulevard- Park Row (crime rate is 284% higher than U.S. average.)



Police Warn: the 3 Most Dangerous Neighborhoods in Dallas | Ash Jurberg

Picture from DallasPolice.net

LexisNexis® Community Crime Map

Healthcare

Dallas has some of the best hospitals in the world, many of which are very well established in the city and the country as a whole. Despite having many great hospitals, they rank near the bottom of customer satisfaction when it comes to healthcare efficiency.

University of Texas Southwestern Medical Center is the best hospital in the area, and the Children's Hospital has great pediatric care to offer as well. It has multiple child healthcare services, so you never have to worry about finding a place for your child to go when they are sick.

Dallas Healthcare
Picture from Docreit.com

School Systems

Dallas surprisingly has many great public schools in the area, which is rare for a city of that size.

School systems:

- Highland Park
- Carroll
- Lovejoy
- Coppell

Most private schools in the area are religiously affiliated. The average tuition cost for a private education is \$13,292.

We believe that our future children will attend a public school because of the cost and quality of education.

Best School Districts | DFW, Dallas | 2020 Rankings
Picture from peoplenewspapers.com

Apartments

<https://connorgroup.com/apartments-dallas-tx/l2-uptown/>



This is the L2 Uptown apartment complex located on Lemmon Ave East in Uptown Dallas.

The rent for this two bedroom and two bathroom unit starts at \$2,599 per month, so upwards of \$1,300 per person per month for 1,085 sq. ft.

The units themselves have stainless steel appliances, granite countertops, and are furnished. There are many amenities available and lists of nearby activities available on the website.

There is a multi-level parking garage with easy access to the nearby highways.

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Conveniences and Inconveniences

Uptown boasts a plethora of options in terms of grocery shopping, restaurants, coffee shops, hair salons, and other convenient businesses. For example, Whole Foods is about a four minute drive from KPMG Plaza and a five minute drive from Walmart. Uptown Dallas also was rated the most walkable part of Dallas making it extremely easy to access necessities if a car is not an option.

An inconvenience about Dallas is the terrible traffic. Even on the weekends, major interstates are congested.

[Uptown Dallas Springs Into a Brighter 2021 With Marquee Events Returning and New Places to Explore](#)

Picture from dmagazine.com

What Tax Rates Look Like

Assuming we are making \$55,000 per a year, we only pay federal income taxes and FICA, which would total in \$9,370 in taxes paid every year.

Dallas has a sales tax rate of 8.25% and a property tax rate of 2.72%.

There are no state or local income taxes in Dallas, Texas. Texas is one of nine states without an income tax.

Dallas, Texas Tax Rates
Picture from thetexan.news

Monthly Budget: \$4,095/month (after tax)

RENT: 1,700

UTILITIES: 200

GROCERIES: 300

GAS: 70

WARDROBE: 75

INTERNET/CABLE: 80

SAVINGS: 200

RETIREMENT: 200

INSURANCE: 30

EMERGENCY FUND: 200


DISCRETIONARY SPENDING: \$1,040

** The money budgeted to discretionary spending can be used for a possible pet, going-out funds, traveling home, or any other budget area that may require more funds.

**For our group there will be no student loans, and we plan to remain on the medical insurance and family phone plan for a while after we begin our careers.

Picture from thn.org

“On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help
on this _____ case _____.” Signed _____

A handwritten signature in black ink, appearing to read "James R. Patton". The signature is written in a cursive style with a large initial "J" and "P".

John Andrew Batson Jr.

Excel Certification

13 October 2021



The Board of Directors of the Corporate Finance Institute® have conferred on

John Batson

who has pursued studies and completed all the requirements for the certificate of

Excel Crash Course

with all the rights and privileges pertaining to this certificate.



Certificate number
40058882

Chair of the Board

Director

Director

Oct 13, 2021

ACCOUNTING THEORY OF COVID-19

27 October 2020

By: Jack Batson, Hannah Harris, Floyd Melton

Introduction

During this case, our group explored various aspects of Pfizer's business as well as their efforts to obtain favorable legislation. Despite COVID-19 taking a toll on the majority of companies' revenues during 2020, Pfizer actually came out on the other end of 2020 with an increase from 2019 in revenue. This increase is sure to continue with Pfizer's release of the vaccine in early 2021. While in the midst of releasing the vaccine, Pfizer has encountered many challenges in terms of therapeutics being an alternative to the vaccine. Our research showed that Pfizer did not sit around and wait, but rather they started developing their own therapeutic in the version of an oral antiviral pill. Once they are able to get the green light on releasing the pill, their revenue growth will only go up as the pill is to be taken along with getting your two vaccine doses.

Along with COVID increasing business for Pfizer, the company has also increased their lobbying and donation efforts in the nation's capital. Pfizer receives significant compensation from the government for their vaccines which has incentivized them to stay on favorable terms with lawmakers. Pfizer has been one of the biggest spenders on lobbying efforts so far in 2021 and has increased efforts from before COVID. Another boost to business was President Biden's executive order mandating vaccinations for federal employees. President Biden went back on his initial stance of no mandates due to the seemingly unstoppable Delta Variant and slower vaccination rates than anticipated.

Additionally, each of our team members used different search engines with one member using Google, one using DuckDuckGo, and the other using Brave. Using different search engines allowed us to visualize the differences between results and layout

for each tool. Google appeared to yield more results from government websites and official medical clinics. The other two search engines had somewhat similar results, but they showed fewer mainstream sites which helped us implement a diverse view on the topics we wrote on.

Module 1

In 2020, despite their success with their COVID-19 vaccine, Pfizer saw a miniscule two percent increase in revenue from 2019.¹ They also saw a 14 percent increase in free cash flow. Compared to their worldwide operations, Pfizer's United States operations saw a much larger share of revenue in 2020 due to a decrease in demand from the Chinese market. Additionally, cost of sales increased by 441 million due to increased sales volumes and problems incurred because of COVID-19. Pricing pressure due to government regulations and legal matters is expected to increase even more from the pandemic.

Luckily for the company, expenses decreased in 2020 due to the joint venture with GSK in 2019, which helped to offset their billion-dollar increase in Research and Development. They were also aided by lower spending in sales and marketing due to COVID-19. Although Pfizer took a hit during the initial outbreak, they were able to not only come out relatively unscathed, but also with increased market share and profits, despite all the new challenges.

Module 2

Outside of the financial report, analysts speculate that although Pfizer's COVID-

¹ https://s21.q4cdn.com/317678438/files/doc_financials/2020/ar/PFE-2020-Form-10K-FINAL.pdf

19 vaccine launched immediate success for the company—pushing their stock up more than 25 percent in 2019²—that success might be nearing its end. With half of the world now vaccinated, the vaccination rate has nearly come to a halt. However, Pfizer is not backing down from their fight against COVID-19; they are currently conducting clinical trials on an oral pill to further prevent COVID-19’s impact. Although the new pill may be helpful in maintaining Pfizer’s profit and share growth, it comes at a steep cost with a 69 percent increase in costs for the Research and Development process.

To Pfizer’s benefit, in February 2019, the federal government invoked the Public Readiness and Emergency Preparedness Act, providing immunity to liability for Pfizer and its competitor, Moderna.³ Under this act, Pfizer cannot face lawsuit charges for any complications associated with their COVID-19 vaccine until 2024. This is helpful from a financial report analysis point-of-view, as Pfizer will not report any extraordinary losses due to lawsuits—more specifically, COVID-19 vaccine-related lawsuits—within the remaining life of their liability.

Additionally, although the vaccine is proving successful for Pfizer financially, the company’s vaccine is disproportionately reaching the world’s rich—an outcome at odds with its chief executive’s pledge to ensure that poorer countries “have the same access as the rest of the world” to a highly effective vaccine.⁴ As of mid-April, wealthy countries had secured more than 87 percent of the 700 million-plus doses of COVID-19 vaccines dispensed worldwide, while poor countries had received only 0.2 percent, according to the World Health Organization. In wealthy countries, roughly one in four people has

² <https://investorplace.com/2021/10/pfe-is-a-clear-covid-19-winner-is-that-enough/>

³ <https://www.cnbc.com/2020/12/16/covid-vaccine-side-effects-compensation-lawsuit.html>

⁴ <https://www.nature.com/articles/d41586-020-03370-6>

received a vaccine. Meanwhile, in poor countries, the figure is one in 500. Also, Pfizer has kept the profitability of its vaccine sales opaque. The United States, for example, is paying \$19.50 for each Pfizer dose. Israel agreed to pay Pfizer about \$30 per dose.

According to financial analysis, Pfizer has vastly exceeded its COVID-19 vaccine sales forecast of \$15 billion, and now expects the jab to bring in \$26 billion of revenue in 2021—an increase of 73 percent on previously anticipated figures—with 1.6 billion doses set to be delivered under current contracts.⁵ It is possible that even this adjusted forecast will prove to be an underestimate, with Pfizer expected to secure further lucrative supply contracts throughout the year. Pfizer’s total first-quarter revenues of \$14.6 billion were up 45 percent on the same period last year, and the company has emphasized that, even excluding profits made from its COVID-19 vaccine, it has seen 8 percent growth across the group.⁶

Thanks to the vaccination, Pfizer looks to make a sizable profit even though they are splitting half of the proceeds with their development partner, BioNTech.⁷ The vaccine accounted for 41 percent of their second quarter earnings. Pfizer now expects to give out 2.1 million doses of the vaccine which has raised their revenue guidance from 26 million to 33.5 million. Thanks to that increase, the company raised its overall revenue guidance to \$78 to \$80 billion, which would represent 86 to 91 percent year-over-year growth. This is incredible to see since the pandemic has greatly hampered most companies' financials.

Module 3

The United States FDA has cautioned against the use of hydroxychloroquine

⁵ <https://www.nytimes.com/2021/05/04/business/pfizer-covid-vaccine-profits.html>

⁶ <https://www.pharmaceutical-technology.com/features/pfizer-covid-19-vaccine-revenue/>

⁷ <https://www.statista.com/chart/25434/pfizer-annual-revenue/>

outside of a hospital setting. This is due to the risk of it causing heart rhythm problems. The Pharmaceutical Journal presents a multitude of evidence against hydroxychloroquine being beneficial in treating COVID-19 or preventing it.⁸ According to the site, hydroxychloroquine did not affect viral clearance with hospitalized patients. The site also mentioned that re-exposure prophylaxis with hydroxychloroquine once or twice weekly did not significantly reduce laboratory-confirmed COVID-19 or COVID-19-compatible illnesses among healthcare workers. Additionally, post-exposure therapy with hydroxychloroquine did not prevent COVID infection or symptomatic COVID-19 in healthy persons exposed to a PCR-positive case patient. Among adults hospitalized with respiratory illness from COVID-19, treatment with hydroxychloroquine, compared with placebo, did not significantly improve clinical status at day 14. All of this evidence suggests that hydroxychloroquine is not effective whatsoever in preventing or treating COVID. This combined with it possibly causing irregular heartbeats shows that hydroxychloroquine treatment is not worth the extra energy and effort unless done in a hospital setting.

However, plasma therapy may prove more effective. The plasma of recovered COVID-19 patients may contain high-titer neutralizing antibodies. Convalescent plasma therapy has been successfully used in the treatment of SARS and MERS, and hence, it might be a promising treatment option for COVID-19 patients. One clinical study performed with 10 patients, showed the clinical benefit of convalescent plasma therapy. Besides, mesenchymal stem cells might relieve the symptoms of ARDS in COVID-19 patients through its immunomodulatory and tissue repair effects. The development of

⁸<https://pharmaceutical-journal.com/article/opinion/down-but-not-out-hydroxychloroquine-could-still-have-a-role-against-covid-19>

effective novel antiviral agents may take several months or years. The best way to deal with COVID-19 is the control of the source of infection through early detection, diagnosis, reporting, isolation, and supportive treatments. In addition, publishing of epidemic information should be controlled to avoid unnecessary panic. Looking ahead, the most feasible approach against COVID-19 is the repurposing of existing antiviral agents and the evaluation of their efficacy in clinical trials. In the long term, there is an urgent need for the development of novel broad-spectrum antiviral agents and vaccines against a wide range of CoVs.⁹

Early effective treatment of any disease can help avert progression to more serious illness, especially for patients at high risk of disease progression and severe illness, with the additional benefit of reducing the burden on healthcare systems. A number of novel therapeutics (e.g., monoclonal antibodies) are available under EUA for early outpatient treatment. Trials to assess the potential effectiveness of these therapeutics in outpatients at high risk of disease progression are ongoing. As a standard, clinicians and patients who wish to consider their use, or the use of any other available investigational therapies, should review the treatment guidelines.¹⁰

Module 4

Although the vaccine has proven successful against the impact of COVID-19, Dafydd Owen of Pfizer Worldwide Research insists that the vaccine is not enough: “antiviral therapeutics are an important part of the healthcare response to counter the

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https://journals.lww.com/imd/Fulltext/2020/09000/Potential_Therapeutic_Options_for_COVID_19.2.aspx

¹⁰ <https://www.cdc.gov/coronavirus/2019-ncov/hcp/therapeutic-options.html>

ongoing threat presented by COVID-19.”¹¹ Since a significant portion of the population remains unvaccinated, whether through refusal or due to preexisting medical issues, researchers are developing alternative treatments for the virus that may encourage unvaccinated people to receive proper treatment. Hence, Pfizer is spending millions of dollars on Research and Development to produce an oral pill, or therapeutic, to aid in combatting the pandemic.

On September 1st, Pfizer announced their new trials on the effectiveness of a newly-developed oral antiviral pill for COVID-19.¹² The drug is part of a class of medicines called protease inhibitors and works by inhibiting an enzyme that the virus needs to replicate in human cells.

At two anonymous Pfizer buildings, one in the US and one in Belgium, testing is already underway. Up to 60 volunteers—all clean-living adults aged between 18 and 60—are receiving the first pill designed to treat COVID-19. Since it is taken by mouth, if the trial is successful, it is possible that an at-home cure for COVID-19 will become available later this year.¹³

This will likely come in direct competition with therapeutics made by other companies. They are also in direct competition with other pharmaceutical companies in developing this antiviral pill. Pfizer believes the pill will complement the vaccine which will result in higher profits if both are required for treatment. Deputy Chief Medical Officer Professor Jonathan Van-Tam said: “The COVID-19 vaccines and therapeutics

¹¹ <https://www.news-medical.net/news/20210802/Pfizer-moves-towards-an-oral-anti-COVID-19-therapy.aspx>

¹² <https://www.reuters.com/business/healthcare-pharmaceuticals/pfizer-starts-dosing-patients-oral-covid-19-drug-trial-2021-09-01/>

¹³ <https://www.telegraph.co.uk/global-health/science-and-disease/revealed-home-cure-covid-could-available-year/>

that have been rolled out to tens of millions of UK patients have had a critical impact on this pandemic, and antivirals bring another key intervention to the table. They will be particularly vital in protecting those who may not get the same antibody response to the vaccines as the majority of the population.”¹⁴ The development of the pill will also be key in encouraging people who are fearful of getting a vaccine to accept COVID-19 treatment. Due to a large still-unvaccinated population, the development of a pill will likely attract large swaths of new customers to Pfizer, aiding in the combat against COVID-19 and in increasing Pfizer’s profits.

Along with the pill trial, Pfizer is also working on an intravenously-administered protease inhibitor, known as PF-07304814. That drug is currently in a Phase 1b clinical trial in patients hospitalized with COVID-19.

Module 5

Pfizer was outflanked on lobbying expenses only by the Pharmaceutical Research and Manufacturers of America, the national association that represents the interests of drugmakers. PhRMA spent \$8.6 million on lobbying in the first quarter.¹⁵ Industry giant and leading COVID vaccine manufacturer Pfizer rang in as the second-highest-paying lobbying client, spending \$3.70 million.¹⁶

During the first quarter of 2021, Pfizer was the second-largest spender on lobbying efforts at \$3.70 million. Pfizer also is a big spender in terms of donating to politicians. In 2019, Pfizer donated \$2.08 million to democrats and \$1.38 million to

¹⁴<https://www.the-sun.com/health/3897485/covid-antiviral-drugs-molnupiravir-pfizer/>

¹⁵<https://www.washingtonpost.com/politics/2021/05/07/health-202-drug-industry-keeps-ramping-up-its-spending-lobbying/>

¹⁶<https://www.opensecrets.org/news/2021/05/big-pharma-shatters-q1-lobby/>

republicans summing to a total of \$3.56 million spent on donations. During 2021, Pfizer has donated \$5000 to Senator Bob Mendez who is expected to play a significant role in drug pricing reform.¹⁷ In 2019, the company spent \$11 million on lobbying efforts before increasing the total to \$13.15 million in 2021—the highest total since 2010. In 2019, the company retained 77 lobbyists before the total grew to a team of 102 lobbyists in 2020. Thus far in 2021, Pfizer has declared 92 lobbyists.¹⁸ Pfizer is exerting their efforts and resources to increase their presence in D.C. so that they can continue to receive favorable regulations in terms of vaccine issuance and other issues.

Last year, after many years of Pfizer pouring money into lobbying, the federal government agreed to pay the company \$1.95 billion for the first 100 million doses it produced. Earlier this week, the company reported it had earned \$3.5 billion in revenue from sales of the vaccine so far this year.

Module 6

The September 9th Executive Order issued by President Joe Biden was a reversal of his vaccination mandate. Under the mandate, there were two Executive Orders. The first required COVID-19 vaccinations for federal employees, subject to exceptions required by law for medical conditions and religious beliefs. The second order requires certain government contractors to comply with COVID-19 safety protocols to be published by the Safer Federal Workforce Task Force before the end of the month. The Executive Order does not specify what the safety protocols will require. The Task Force

¹⁷<https://www.fiercepharma.com/pharma/peddling-influence-d-c-cost-pharma-industry-a-record-92m-first-quarter>

¹⁸<https://rightsfreedom.wordpress.com/2021/10/10/revealed-pfizer-lobbying-hits-decade-high-as-dozens-of-high-profile-political-appointees-become-big-pharma-reps/>

presumably has a range of options at its disposal, including masking, social distancing and even vaccination requirements.¹⁹ This is likely due to less people being vaccinated than Biden originally thought would be at this point. The vaccination rate has slowed since it was originally released to the public, but it increased again during the height of the Delta Variant since the Delta Variant has proven to be more deadly and contagious than the original strain. With the political atmosphere the U.S. has today, Biden expected that the divide was going to further increase, no matter what, but he believed that mandating the vaccine would bring peace. Mandating the vaccine appears to be a necessary evil due to the increased pressure from democrats, the spike in positive cases involving the Delta Variant, and the need to retain a safe and healthy country.

¹⁹<https://www.hklaw.com/en/insights/publications/2021/09/president-biden-mandates-covid19-safety-measures-for-government>

Important Influencers

19 November 2021

By: John Batson

Despite his South Louisiana sounding name, Kyle Baudoin finds himself all the way up in Shreveport, Louisiana which is commonly referred to as “South Arkansas” or “East Texas” by South Louisianians. Kyle himself never envisioned himself ever living north of I-10, let alone owning a men’s clothing store. Life does not always end up going as planned, but as he said to me in our interview “just keep your nose down and you will end up where you need to be.”

Kyle was born and raised in Maurice, Louisiana, a small town just outside of Lafayette. He was the youngest of four with all his siblings being 13 months apart. Kyle, however, was 14 years behind the second youngest sibling and was an uncle by the third grade. His dad came from a farming family, so at an early age Kyle learned to get after it bright and early and conquer all that the day presented. One way he took on the day was setting crawfish traps in the pond located behind his house. Whatever he caught each day he would then go sell and make a little money. Experiences like these not only shaped Kyle as a child, but they influenced how he does business in his store today.

As exhibited by his last name, South Louisiana culture also played a large role in Kyle’s life growing up. His father was a French interpreter for Continental Airlines as French was his first language. The local school did not approve of his dad speaking French, but, ironically, that is how he ended up making his money at the end of his career. Growing up in the land of the Cajuns, Kyle also did lots of hunting and fishing in some of the most premier spots in the United States. He did so with his brother, cousins, and friends. These experiences unique to south Louisiana still play a role in Kyle’s mindsets and everyday encounters, he said.

College for Kyle was another influential period in his life. As Kyle got older, he

always planned on going to college. However, he never pondered about what college would achieve for him. Even during his time at the University of Louisiana Lafayette, he never had a clear vision of what he was aspiring to become. Kyle learned a lot during these four years, with some of the knowledge coming from the classroom, and some coming from experiences and relationships. He was friends with members of the water-skiing team which has been number one in the nation on multiple occasions, interestingly enough. Kyle also worked full time for three years while in college. He graduated from ULL in 2004 with a degree in sports administration. He was originally in marketing but switched to sports administration when they started up the program while he was there. Despite never having a clear vision of what he wanted to do, Kyle's college years proved invaluable in developing his personality and work ethic.

Since starting college, Kyle has had quite the journey in terms of jobs he has held. As mentioned earlier, he worked full time in college for a full-service tuxedo shop called Mary Ellen's Tux Shoppe. Here at Mary Ellen's, he worked for two brothers named Randy and Kevin. Kevin was big on numbers and the day-to-day operations while Randy was the personable one that remembered everyone's name. Kyle perfectly painted a picture of the type of person Randy was when he explained that sometimes in business, you eat a little bit to make things right. Randy exemplified this by bending over backwards for anyone and helping in any way he could. He would joke with the young guys in the store, but when it came time to work, he was ready to tackle whatever came his way. Randy and Kevin both were big role models for Kyle during his collegiate years. While working for them, Kyle realized that it is not always about business. It is sometimes about the long game, especially if you are the face of the business. Making

sure you do everyone right while not tarnishing your shop's name for the sake of business is a huge lesson he learned from the two brothers.

Starting after college, Kyle got an internship with the Louisiana IceGators, a professional hockey team located in Lafayette. He then got hired full time as a salesman for the IceGators. While working for the team, he also trained dogs on the side for about ten years. Kyle knew that the IceGators job was not what he wanted to do forever so he was always on the lookout for his next opportunity.

After his stint with the hockey team, Kyle moved on to a job working for his brother. His brother had worked in the oil field his entire life and was a part owner of a small chemical company. Kyle did crew change sales for the company which had him traveling all over. He would go anywhere from Galveston, Texas to Venice, Louisiana. Not only did he travel to many places, but he also had to endure being on the road late at night and early in the morning to meet with clients. Despite working for an oil company, Kyle had more of a sales and logistics job than working out on the field. Working for his brother was a great experience, but again Kyle knew this was not what he envisioned himself doing forever. This job allowed him to progress in life and do the things he enjoyed, but it was never a job that he would continue to do for the rest of his life. All of these different jobs aided in Kyle learning to relate to a wide variety of people. This has been extremely beneficial at the clothing store as a swath of different people from all walks of life come in to shop every day.

Following his job at the oil company, Kyle worked at a company called Cal Chlor for about five to six years. He enjoyed his time there and was working with a small group of guys. Unfortunate news struck when Kyle was 35 as his wife, Laura, was diagnosed

with stage three breast cancer. At the time, she was working from home for a women's clothing store, "M," that she co-owned with her mother. Laura and Kyle had always joked about moving up north to Shreveport, but it had never seemed ideal because he was tied by his Cajun roots to Lafayette. Once they were faced with the breast cancer tragedy, the couple evaluated where they were in life. Laura had always thrown out the idea of Kyle starting a men's clothing store. When a building came up for sale, Kyle finally agreed to the idea and they got to work. So, while Laura battled cancer, she and Kyle worked on the business idea for L.E. and Chalk, named for his and her grandfathers, for about a year before they finally moved up. Kyle never pictured that this would be the way his cards would be dealt, but he is extremely happy with how the store has turned out.

The most difficult hurdle Kyle has faced is similar to what most business owners, especially retail, would say. The pandemic brought challenges that could not have been accounted for or anticipated. Business owners can typically plan for slow seasons, but Kyle along with many other business owners were faced with circumstances that provided him with no advantages. The uncertainty of the pandemic certainly brought Kyle lots of stress and a whirlwind of emotions. This stressor combined with that of virtually homeschooling his children made the early stages of the pandemic the toughest. Nevertheless, Kyle acknowledged the support the Shreveport community provided his business during the difficult time. He also acknowledges that it was a two-way street and the store carried the responsibility of providing the people with a product and service. Shreveport has long struggled to support quality, deserving, causes unfortunately so to hear about the support L.E. and Chalk was given is very encouraging.

Life outside of work for him, though, has been busier than ever since the

pandemic has started to slow down. The Baudoins have a ten year old boy and a six year old girl. Their boy is big into soccer while their little girl loves to just make people laugh. While Kyle is at home, he and Laura are sure to “turn off” talk regarding their respective apparel shops and focus on spending time with the kids. He has also started to ease back into hunting and fishing, his once cherished passions. He went fly fishing with a college friend this past weekend, which was a nice reminder of where his journey started-- in the marshy wetlands of South Louisiana. Besides hunting and fishing, Kyle enjoys many other outside activities with his family. They spend lots of time on the patio, riding bikes, and walking to local restaurants in the neighborhood. When business slows down in January and February, Kyle enjoys snow skiing in Deer Valley, Utah with his family since it’s something special they all get to do together. Overall, Kyle feels that he has been blessed with a balanced life outside of work that consists of family, the outdoors, and supporting businesses throughout Shreveport.

Advice Kyle wishes he had known when he was 21 would be to “just keep your nose down and you will end up where you need to be.” Kyle mentioned that he does not know if he will still be in men’s retail in five years, but that wherever he ends up is where he needs to be. As he progressed through the many jobs he has held, Kyle has come to realize his piece of advice to be all the more true. From a business perspective, he advises that any business idea takes a lot of hard work and cannot be taken lightly. Do not just be enamored by the cleverness of the idea but rather dive into it and make it mean something. While any business takes countless hours of hard work, making sure that you enjoy the ride while you are working is something extremely important according to Kyle.

Kyle has so many things to be proud of, but the people he is surrounded with are what ultimately bring him the most pride. His family and especially his kids make him extremely proud. Seeing who they have become makes Kyle content with the present and hopeful for the future. He is also very proud of the team he has put together at L.E. and Chalk. Working with people he gets to call close friends has been beneficial to not only the store but also Kyle's life. The relationships built at the shop are cherished, as they will last a lifetime.

In terms of vacations, Kyle has had many great experiences, but his favorite so far would be his family's trip to Montreal and Quebec City. With both parents speaking French and both grandparents only speaking French these Canadian cities felt like home in a strange way. All the street performers reminded Kyle of New Orleans in a way while the French aspects of the city felt like it was a part of Canada, too. Looking back, Kyle regrets never taking a few weeks off work in college and going to see his favorite baseball stadiums with friends. If he could take any trip now, he would go to the east coast to visit some of these iconic, historic stadiums.

The biggest challenge for Kyle's generation would be staying abreast and continuing to evolve in terms of technology and business practices. Many times, when a new problem or trend to follow comes along, his generation has the inclination to just let the young guy figure it out. When it comes to retail, staying up to date on trends and new styles is key to not getting left behind. Utilizing social media has been pivotal in the store, which helps connect them with people in my generation. While continuing to evolve is great, Kyle also preached staying true to who they are as a store. Balancing this aspect with learning what the younger generations value in terms of life and pay has been

somewhat of a challenge since Kyle opened the shop. Every five years, each set of people brings their own values and beliefs so adapting to that and being open minded is an advantageous attribute, especially for members of Kyle's generation. Change is inevitable so might as well continue to evolve.

The biggest challenge for my generation according to Kyle is learning to accept tough love, which I think is very true. Life will not always be easy, so persistence is important for people in my generation. Sometimes, people learn the most when they are told "no," so our generation needs to learn to let that happen and not shut down at the first sign of adversity. I could not agree with Kyle more, and I believe having a 'grit' would do a lot of good for members of our generation.

All in all, life has been pretty good for Kyle. Despite the many obstacles, he is content with where he is in life in terms of the store and family. L.E. and Chalk has been a wonderful addition to Shreveport, and it will continue to be a pillar in the community for years to come.

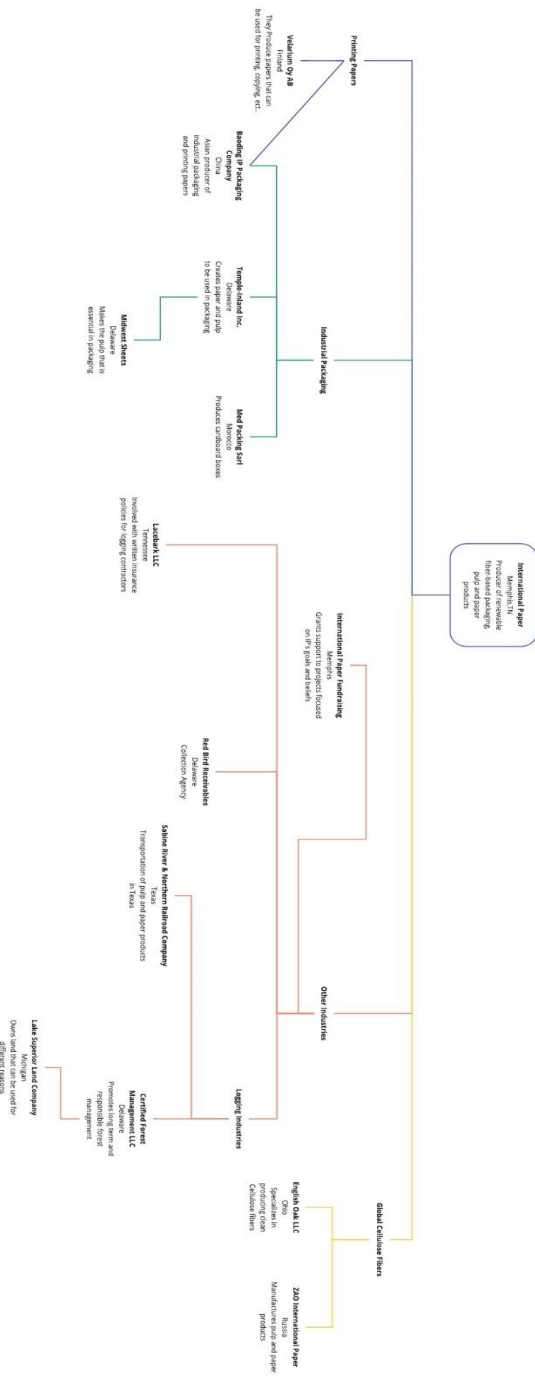
“On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this _____ case _____.” Signed _____

A handwritten signature in blue ink that reads "Jack Rattner". The signature is written in a cursive style with a large initial "J".

International Paper
Week 1

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International Paper Organizational Chart



We were tasked with selecting a publicly-traded company that our team is interested in, and we will study different aspects of the organization for the semester. We chose International Paper (IP), a global manufacturer of fiber-based pulp and paper products based in Memphis, Tennessee²⁰. This week we researched nearly everything we could find about the company, created an organizational chart of its structure, and determined its greatest threats to future operations. We explored annual reports, news articles, and background information relating to International Paper to get a better picture of the company. We analyzed their 2016 through 2020 annual reports because last year's annual report has not yet been released. The annual report, along with the market valuation data and industry analysis, provided us insight into the past performance and expectations for the future of the business. We also read news articles to understand their market standing. To find more information about their origins and their journey to becoming one of the leaders in the paper-manufacturing industry, we took information from their website.

International Paper was founded in 1898 in Corinth, New York, and soon began to supply 60 percent of the country's newsprint. They have since grown into an international supplier of renewable and recyclable paper and pulp products. The main segments of the business are producing industrial packaging, global cellulose fibers, and printing paper. They have nearly 40,000 employees and have been listed by many news outlets as one of the most diverse and best companies to work for in the country. The chairman and CEO, Mark Sutton, has been leading the company since 2014 and has

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<https://www.google.com/search?q=international+paper&oq=international+paper+++&aqs=chrome..69i57j0i56j0i512l2j46i175i199i512j0i131i433i512j69i60l2.8687j1j7&sourceid=chrome&ie=UTF-8>

become influential in several companies and councils around the world. International Paper is a company that millions of people have relied on for decades for their daily needs, such as printing a brochure, packaging as a small business, or changing a diaper.

International paper has a plan committing to help better the future of our planet. This plan is referred to as Vision 2030. The four goals it involves are “healthy and abundant forests,” “thriving people and communities,” “sustainable operations,” and “renewable solutions.”²¹ They are determined to try to create products that help rather than hurt the environment. Their mission includes improving people's lives, the planet, and their performance as a company. The IP (International Paper) Way Forward is the company's plan to add value for those involved with the company now and in the future. International Paper has adopted the idea of a circular economy, meaning that they want their products to have more than one use. The company aspires for all its products to be reusable or recyclable, eliminating as much waste as possible.

The industrial packaging division was responsible for 73 percent of International Paper's revenue. In 2017, there were strategic investments made for expected growth in the industrial packaging division. Looking at the fourth quarter of 2019, they expect price and mix to improve in the first quarter of 2021 due to the realization of the previous movement of the price index.²² They expect volume to be flat, and for operations and costs to improve. They expect these things to improve because of events that occurred in 2020 that were exceptions from ordinary business activity. COVID-19 resulted in higher supply chain costs for operations in Industrial Packaging. Sales volumes increased from

²¹ <https://www.internationalpaper.com/company/about-international-paper>

²² https://s1.q4cdn.com/597881801/files/doc_financials/2020/ar/2020-Annual-Performance-Summary.pdf

2019 to 2020, with boxes for shipping and such being in high demand.

International Paper's other segment is Global Cellulose Fibers, which produces fluff and specialty pulp to be used in absorbent hygiene products. These products include diapers, feminine products, adult incontinence products, non-woven products, tissue, and paper products. This is a global operation taking place in the United States, Canada, France, Poland, and Russia. The performance of this segment has been lucrative over the past several years, but there have been missteps. For example, 2016 and 2020 both saw drops in profitability and sales, but both of those were due to unavoidable actions. In 2016, IP acquired a pulp business from Weyerhaeuser to be integrated into their existing operations, and IP also undertook a massive conversion of the Riegelwood, North Carolina mill to produce more fluff and specialty pulp products²³. Both of these projects increased manufacturing capacity in years to follow and contributed to the growth of the cellulose fibers segment. In 2020, losses plagued IP, which was typical for manufacturing businesses at the time due to the spread of the COVID-19 virus²⁴. However, 2020 also showed lower maintenance downtime costs, which have been an issue for IP over the years. Another strong influence on profitability in the cellulose fibers division is the price of input costs, mostly wood, chemicals, and energy, which have fluctuated but mostly increased due to inflation. Overall, this segment is profitable and represents an advantageous investment of IP's resources.

Until 2021, International Paper was composed of three major segments, which included Printing Papers. IP announced it would create a publicly-traded standalone

²³ https://s1.q4cdn.com/597881801/files/doc_financials/2016/APS-10K-Final-v2.pdf

²⁴ https://s1.q4cdn.com/597881801/files/doc_financials/2020/ar/2020-Annual-Performance-Summary.pdf

company to take this product. This company became Sylvamo (trading name, "SLVM"), and stock in the new company was distributed to existing shareholders of IP. This is a strategic move by IP as they work to condense their business to their key value drivers, which have historically been industrial packaging and cellulose fibers. The demand for paper products has also been declining in recent years due to the shift to paperless interaction in both marketing and media, which has been exacerbated by the pandemic²⁵. For similar consolidation reasons, IP has chosen to maintain its Ilim and GPIIP subsidiaries, rather than transition them from equity investments into operations. Ilim is a pulp and paper joint venture in Russia, while GPIIP was the result of the 2018 transfer of its North American Packaging Business to Graphic Packaging International Partners, LLC (GPIP). IP still receives equity earnings from both of these businesses (2).

Next, there are several issues that International Paper has faced in recent years. As with most companies, the COVID-19 pandemic brought about difficult circumstances. As stated in their 2020 annual report, "COVID-19 has had a significant negative impact on demand for our printing papers products. In addition, our operations in Industrial Packaging experienced higher supply chain costs due to the impact of COVID-19." Despite 2020 having higher sales volume and lower input costs than 2019, lower sales price and higher operating costs more than offset these gains for International Paper and its subsidiaries. Any weaknesses the company had before the pandemic have only been exacerbated since March of 2020.

The supply chain for International Paper has been stretched thin due to the pandemic. No process in the supply chain has been spared with the CFO claiming the

²⁵ <https://www.yahoo.com/video/international-paper-ip-concludes-spin-150003131.html>

company is facing a cardboard-box shortage²⁶. With a shortage of shipping materials, International Paper must deal with delays and challenges in delivering materials. Other problems within the supply chain include a tight transportation environment, shortages of caustic soda and other raw materials²⁷. With so many interruptions in the supply chain, International Paper can only hope that 2022 will have fewer production issues.

Uncontrollable forces certainly present a challenge to International Paper. The winter storm in mid-February caused petrochemical plants to shut down as well as cease operations for many of its mills. This in turn caused supply chain issues with the lack of raw materials being processed. The company also has to deal with unscheduled maintenance outages, prolonged power and equipment failures, and chemical spills and releases. All of these problems can either slow production down or make the company vulnerable to legal action. One such case includes a group of Louisiana residents who claimed to be affected by a paper mill byproduct²⁸. Only so much can be done to prevent these issues, however, International Paper appears to be more susceptible to these forces due to their industry.

Over the past few years, labor shortages have affected companies worldwide. International Paper is no exception to this unfortunate occurrence. The importance of operational mills and factories is highlighted in the 2020 annual performance report. Pandemic guidelines for businesses differ across the world, creating a managerial nightmare for all industries. Workers are essential to the creation and distribution of

²⁶ <https://www.bloomberg.com/news/articles/2022-01-27/cardboard-boxes-shortage-is-latest-disruption-to-global-shipping>

²⁷ <https://www.spglobal.com/platts/en/market-insights/latest-news/electric-power/072921-international-paper-sees-higher-costs-supply-chain-snags-through-2021>

²⁸ <https://www.classaction.org/news/louisiana-resident-claims-toxic-waste-from-international-paper-plant-contaminated-property>

International Paper products, and the influx of various COVID-19 strands has brought about an advent of employees quitting their jobs. International Paper relies on a global workforce, and continued labor shortages have negatively impacted the business²⁹.

Input costs for International Paper have increased throughout the pandemic. For instance, a trend exists between increased labor shortages and wages³⁰. Employees that are retained are expecting more money, causing an additional increase to input costs aside from raw materials and energy³¹. International Paper utilizes a plethora of raw materials to create its products. The pandemic has altered consumer mentality from buying in-person, to ordering products online. E-commerce is a two-sided sword. On one hand, corrugated packaging is in high demand. On the other hand, the price for the raw materials needed to manufacture corrugated packaging is increasing. The trend of increased demand and wavering supply is steadily raising the material price and could negatively impact the business. Energy fluctuations pose a risk to manufacturing. Biomass energy is critical in providing energy to mills and upholding International Paper's "Vision 2030" plan to positively impact climate change³². Biomass energy, as well as other energy sources, is becoming more expensive as companies are pressured to recover from pandemic problems while meeting high rates of demand. Input costs may continue to grow until stability in the global market is reached.

Climate change not only affects International Paper, but also the world at large. International Paper already practices ways to positively impact the environment. For

²⁹ https://s1.q4cdn.com/597881801/files/doc_financials/2020/ar/2020-Annual-Performance-Summary.pdf

³⁰ <https://www.euromonitor.com/article/three-charts-on-surging-input-costs-in-manufacturing>

³¹ <https://www.euromonitor.com/article/three-charts-on-surging-input-costs-in-manufacturing>

³² <https://www.internationalpaper.com/company/regions/north-america/government-relations/issues/energy#:~:text=Biomass%20energy%20is%20integral%20to,of%20energy%20in%20our%20mills>

example, actions are being put into place that will change the value chain to advance a low-carbon economy. "Vision 2030" is International Paper's plan to reduce gas emissions per the Paris Climate Agreement. Over this decade, green gas emissions are projected to be reduced by 35 percent. International Paper has many forests around the world that provide the materials needed to produce its products. These forests are negatively affected by climate change. For instance, certain areas may suffer from overly sufficient or insufficient rain, deforestation, and wildfires. Each of these creates a threat to the sustainability of manufacturing.

Overall, International Paper has performed well despite numerous challenges and shows promise of good performance in the future. We plan on addressing the challenges mentioned in this case in our future research, such as supply chain management and climate change risks. We also plan on encouraging more good practices, like their environmental campaign. This case provided the team with a detailed overview of the company and prepared us for upcoming cases and presentations.

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case.

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International Paper
Week 2
February 16, 2022

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For this week's case, we were tasked with finding the greatest potential audit risks on International Paper's (IP) balance sheet and income statement accounts. Three accounts that posed the greatest threat to proper reporting were inventory, sales, and variable interest entities. If any of these accounts were misstated, it would certainly be catastrophic for investors and highly affect the financial appearance of IP. Through our research, we identified the risk associated with each account, internal controls that may mitigate those risks, and the testing that will assess the performance of those tests. We also inserted some data analytics tools that may be used to help with the internal controls of IP for these accounts. Our research was conducted using IP's 2020 Annual Report as their 2021 Annual Report has yet to be released³³

The first risky account is inventory. International Paper's inventory includes raw materials, finished pulp, paper, and packaging products, operating supplies, and other items. There is a risk of existence because the inventory may be overstated. International Paper uses FOB destination for their shipping terms, which means that inventory could be misstated if added before delivery from suppliers. Verification of transactions and shipping is also required for the sale of inventory to ensure completeness. Valuation is also an issue with the inventory. IP uses LIFO to value most of its inventory, which could cause material distortions of asset value. One internal control that would mitigate these risks is to maintain thorough documentation of inventory balances and changes. This would include documents such as purchase orders, packing slips, and production logs. For example, packing slips should be matched with items when receiving orders to ensure no items are missing. The documentation could be tested by obtaining access to their

³³ https://s1.q4cdn.com/597881801/files/doc_financials/2020/ar/2020-Annual-Performance-Summary.pdf

records and comparing them against physical inventory counts. Data analytics could be used to control inventory through a cloud-based inventory management program. This system would assist with tracking shipments, product IDs, and buyer and supplier information. Access to this system would provide the auditor with more resources to test inventory accuracy. The next internal control for inventory is the segregation of duties. This means that different departments would control purchase authorization, inventory custody, and inventory accounting. Auditors would test this via employee inquiry and observation, such as asking department managers what tasks their employees perform and watching the daily activities of those employees. Data analytics could be used to track segregation of duties through IT access controls and entering IP's ERP system, which would detect if an employee was wrongfully accessing programs outside of their responsibilities and would limit the ability of employees to access certain information.

The second risky account is sales. Net sales in 2020 for International Paper was \$20,580 million, with Industrial Packaging making up the largest portion of the company's sales volume. There is a risk involving existence; sales could have been overstated through inaccurate accounting of credit sales and sales returns and allowances. There is also a completeness risk, seeing as the company could falsely account for revenue from products sold without customers receiving services or products yet (F.O.B. shipping issues). An internal control that is often used to mitigate sales risk is a numbering system for sales invoices. This would be performed in IP's information system, which would utilize data analytics to alert possible fraud. Testing would entail auditors taking a random sample of customer statements. The auditor would verify that the products sold are accounted for and that proper authorization was obtained for each

transaction by checking signatures and management approvals. A second internal control could be setting a proper tone at the top level of the company. For example, toxic corporate culture could fuel unethical behavior to achieve a higher bonus or greater pay. Corporate culture can be tested by reviewing IP's statement of ethics and internal controls, observing everyday operations, and interacting with the audit committee of IP's board of directors. Data analytics may aid sales testing through the use of intelligent sales software to test historical data for verification of current numbers and future projections. For example, a significant amount of sales data can be run using data analytics to predict the sales that will be uncollectible, which would enable auditors to test the allowance for doubtful accounts.

The final risky account is International Paper's variable interest entities. In 2006, International Paper sold 5.6 million acres of forestlands for installment notes totaling 4,800 million dollars.³⁴ These installment notes, referred to as "Timber Notes" in the annual report, were used as collateral for borrowings from third-party lenders to defer tax liability. The creation of special purpose entities monetized the notes for the sake of achieving the tax deferral. Variable interest entities are a legal business structure in which an investor has controlling interest despite not having the majority of voting rights.³⁵ Typically, these entities are created to protect the business from creditors or legal action. International Paper constructed these entities to achieve more favorable taxes. The duality of this scenario is what constitutes its risk. On one hand, the ambiguity surrounding the entity's appearance on the consolidated balance sheet could positively impact a potential investor's willingness to give capital. However, knowledge of how variable interest

³⁴ https://s1.q4cdn.com/597881801/files/doc_financials/2020/ar/2020-Annual-Performance-Summary.pdf

³⁵ <https://www.investopedia.com/terms/v/variable-interest-entity.asp>

entities have been used in the past may prompt a potential investor to withhold funding. The existence of this account illuminates the significance of being an ethical accountant because the presentation of information is a driving factor in decision-making. Another risk associated with this account is materiality. Materiality is any information that can reasonably assist in making a decision. An internal control to help characterize variable interest entities is to annually assess all elements of the entities. This tactic would help management remain knowledgeable about the aspects that comprise the entities to further emphasize their importance to investors. One way to test the reliability of the controls along with the accurate presentation of these entities would be to review any changes to debt covenants or credit ratings. Reviewing these will allow management to correctly depict the information required to faithfully represent these entities to potential equity providers. Another test is a narrative walkthrough of the variable interest entities' relationships to International Paper. These entities are ambiguous; however, this test could instill confidence in outside sources that information is represented faithfully. Data analysis is an integral part of auditing a company. A database system that houses all information surrounding the variable interest entities of IP would be useful to understand their importance. It would make it easy for both management and an external auditor to find anything related to the entities. International Paper is within its legal right to utilize variable interest entities. The information is disclosed in the consolidated balance sheet, as well as "Note 15" of the annual report. Additional testing and information surrounding the variable interest entities should take place to create clarity for all parties.

Accounting misstatements, whether intended or not, can be devastating for not just a company but also the many investors who depend on companies to have accurate

financial statements. The accounts that pose the most risk to International Paper are related to its core of operations, particularly inventory and sales. Through our analysis of the inventory, sales, and variable interest entities accounts we were able to produce internal controls that mitigate the risks associated with these accounts. Overall, we learned that the goal of auditing is to ensure that shareholders are properly informed and not misled. Through accurate representation, International Paper will create more business opportunities through the reduction of legal inquiries and a more favorable reputation in the stock market.

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case.

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International Paper
Week 3
March 2, 2022

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For this week's case, we proposed two distinctive tax strategies to lower the tax liability of International Paper (IP). After research of various tax planning strategies and tax credits applicable to the paper and manufacturing industries, we recommend that IP consider the Research and Development (R&D) and the Interest Charge - Domestic International Sales Corporation (IC-DISC) tax credits. We explained both of these credits as well as their applicability to IP. Then, we quantified the benefit of the implementation of the credits, which is presented in tables. We used numbers and strategies from preceding IP annual reports and tax credit research sources to perform calculations.

The R&D tax credit deducts a portion of research and development expenses from a company's federal income tax liability, promoting domestic investments in innovation. Many manufacturing companies fail to take advantage of their eligibility for this credit. Multiple overlooked innovations are eligible for this credit, including expenses manufacturing process improvements and failed improvement projects. There is a four-part test to determine if a company qualifies for the credit. This test includes analyzing permitted purpose, technological nature, uncertainty, and process of experimentation. The research must be intended to improve or create a new product, increase performance, or lower costs³⁶. The research must also be based on physical science principles. Further, there must be proof that the company has addressed any uncertainties concerning the product or process development. Lastly, the company must demonstrate experimentation and consideration of alternatives. Typically research or experimental expenses for the use of the tax credit involve the use of contract research. Additionally, the company must present documentation of research intent and expenses. Ineligible research expenses

³⁶ <https://badermartin.com/manufacturers-qualify-research-rd-tax-credit/>

include research conducted outside of the U.S., research completed after commercial production had started, studies and surveys, research that is funded by certain external organizations, research completed specifically for a customer, the duplication of some existing product, and research for internal-use software.

The Research and Development Tax Credit is especially applicable to International Paper since it is already a key innovator in the paper industry. IP is currently using its research to tailor its packaging and paper products specifically to clients and to consult in supply chain issues³⁷. IP has also pioneered sustainable packaging through the invention of ClimaShield, a recyclable and water-resistant packaging that has environmentally benefited the world for 25 years.³⁸ In preceding years, the company has invested heavily in R&D, an average of \$29 million per year for years 2017 through 2019. However, IP did not expense any R&D in 2020 or 2021.³⁹ Although the reasoning for this decision is unclear, there is still a need for innovation in the paper industry, especially amidst the global transition to more electronic information transmission and the need for more environmentally conscious manufacturing practices. Therefore, we propose that IP once again deduct a portion of its R&D expenditures from its tax liability through research into more sustainable processes and products. The company has a unique advantage in this endeavor since it has only three major segments, industrial packaging, cellulose fibers, and printing papers.⁴⁰ This allows IP researchers to concentrate on specific projects to further the innovation and competitive advantage of

³⁷ <https://www.internationalpaper.com/products/europe-middle-east-africa/corrugated-packaging/our-vision-for-innovation>

³⁸ <https://www.internationalpaper.com/products/na/corrugated-packaging/practical-innovation/climashield/news-releases/2016/07/26/more-than-two-billion-climashiel-boxes-produce-decades-of-environmental-benefits>

³⁹ <https://www.wsj.com/market-data/quotes/IP/financials/annual/income-statement>

⁴⁰ https://s1.q4cdn.com/597881801/files/doc_financials/2020/ar/2020-Annual-Performance-Summary.pdf

the company. Although future innovations of the paper industry are uncertain, IP would likely improve manufacturing processes to fulfill their Vision 2030 goals and transition to carbon-neutral operations as well as other innovations related to environmentally friendly paper products.⁴¹

With an innovation division already existing in International Paper, there would be few startup costs related to this proposal. If new equipment is needed, those items would not qualify for the credit as they are depreciated over time. However, wages of researchers and the purchase of related supplies are eligible for the credit.⁴² Since IP did not claim any R&D expense over the past two years, the basis for credit determination is six percent of current year QREs, which we assume will be \$29 million, IP's average R&D expense for the years 2017 through 2019. This follows the rules of the alternative simplified credit (ASC) method of R&D tax credit calculation for entities without QREs in at least one of the preceding three years.⁴³ This results in a tax credit of \$1.74 million along with an expense of \$29 million, both of which lower the tax liability of IP.

The Interest Charge - Domestic International Sales Corporation (IC-DISC) tax credit would reduce the tax burden of exporting for International Paper. LBMC describes this tax credit as “an incentive specifically provided by the tax code that allows U.S. exporters to increase their ability to compete globally by reducing U.S. tax liabilities.”⁴⁴ IC-DISC should not be confused as a tax shelter, but rather a way to save on taxes by transferring income from the exporter to the tax-exempt IC-DISC through an export sales

⁴¹ <https://seekingalpha.com/article/4332621-international-paper-company-wait-for-next-page>

⁴² <https://www.adp.com/resources/articles-and-insights/articles/q/qualified-expenses-for-the-r-and-d-tax-credit.aspx>

⁴³ <https://www.adp.com/resources/articles-and-insights/articles/r/r-and-d-tax-credit-calculation-methods.aspx#:~:text=The%20base%20amount%20needed%20to,in%20this%20case%2C%20is%20%247%2C500.>

⁴⁴ <https://www.lbmc.com/blog/what-is-ic-disc-how-does-it-work/>

commission. A DISC can be an actual company with real employees; however, they typically have no substance. Several steps must be taken to form an IC-DISC. First, the company must be established under state law. Next, the company must offer only one class of stock with a par or stated value of at least \$2,500. Finally, the IC-DISC must maintain separate books and records, but otherwise, there are no changes to business practices.

IC-DISC comes with many advantages. Besides being a tax-exempt entity, commissions paid to a DISC reduce the taxable profit of the related supplier. The operating company pays a tax-deductible commission to the IC-DISC equal to the greater of four percent of the operating company's gross receipts from qualified exports or 50 percent of the operating company's net income from qualified exports.⁴⁵ At the end of the year, a commission calculation is run which is returned as a qualified dividend to the shareholder. These dividends are taxed at a 20 percent rate. An IC-DISC is also not required to distribute all commission income to shareholders. Income can be loaned back to the exporter, creating tax deferment and working capital.⁴⁶ With all these benefits in mind, it would be beneficial for International Paper to consider forming a DISC. IP is a major exporter of paper and pulp packaging, so any sort of tax savings could greatly assist in keeping profit margins as high as possible.

The IC-DISC commission is calculated using the greater of four percent of the operating company's gross receipts from qualified exports or 50 percent of net income from qualified exports. This calculation is an estimate. The information required to

⁴⁵ <https://www.kbkg.com/ic-disc#:~:text=The%20IC%2DDISC%20is%20tax,tax%20may%20yield%20different%20results>).

⁴⁶ <https://www.lbmc.com/blog/what-is-ic-disc-how-does-it-work/>

calculate the true value of International Paper's IC-DISC commission is not readily available through traditional means of external analysis. However, this estimation uses numbers from International Paper's consolidated statement of operations to imitate the method used for the IC-DISC commission. First, net income from exports was calculated by subtracting expenses from net sales. Second, multiply total net sales by four percent to find the potential commission. Sequentially, multiply net income from qualified exports by 50 percent to derive the value of the second potential commission. Analyze the calculated potential commissions and choose the greater value of the two. In doing so, it can be realized that International Paper would receive a greater commission from four percent of gross receipts from qualified exports. Calculate the required federal income tax by multiplying 21 percent by the IC-DISC commission. Furthermore, multiply the commission by a 15 percent dividend sales tax. Lastly, subtract the determined dividend sales tax from the computed income tax to find total tax savings. These calculations are displayed in the following table.

Table 1: IC-DISC Commission Calculation (in millions)	
Qualified Export Gross Receipts	\$20,580.00
Expenses	19,930.00
Export Sales Net Income	\$ 650.00
4% Export Gross Receipts	\$ 823.20
50% Export Net Income	\$ 325.00
IC-DISC Commission (highest of two calculations)	\$ 823.20
21% Federal Tax	172.87
15F IC-DISC Dividend Sales Tax	123.48
Total Tax Savings	\$ 49.39

Based on research of tax credits and International Paper, our team recommends that IP pursue the Research and Development (R&D) and the Interest Charge - Domestic International Sales Corporation (IC-DISC) tax credits to lower their tax liability sustainably. Throughout this case, we learned how to apply tax concepts to existing companies and situations. Additionally, we learned the importance of tax planning in business operations. Both of these strategies result in multi-million-dollar savings, which can be used to reinvest in current operations and fund further distinguishments from competitors in the paper industry.

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case.

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International Paper
Week 4
March 23, 2022

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In this week's case, we were assigned to look at our company from an advisory standpoint. We first looked at what business strategy our company used, finding that International Paper utilizes product differentiation. We then looked at trends in the company's financials by displaying values from the income statement and balance sheet in excel. By analyzing these values and the overall financial state of the company, we decided on the strongest threats present to the company's success and created an action plan for the threats. The two strongest threats we found were supply chain issues and increased regulation and fast-moving developments in ESG disclosure and implementation. We then created action plans and implementation plans to prevent these threats and looked at how these plans would positively affect the company's financials. The following table shows the financials for the past five years.

Accounts: in millions	2021	2020	2019	2018	2017
Revenue	\$19,363	\$20,580	\$22,376	\$23,306	\$21,743
Cost of Goods Sold	\$13,832	\$14,373	\$15,268	\$15,555	\$15,300
Selling, General and Administrative Expense	\$1,385	\$1,520	\$1,647	\$1,723	\$1,653
Operating Income	\$999	\$650	\$1,604	\$1,781	\$848
Assets	\$25,243	\$31,718	\$33,471	\$33,576	\$33,903
Liabilities	\$16,161	\$23,850	\$25,753	\$26,193	\$27,362
ROA	3.96%	2.05%	4.79%	5.30%	2.50%
Dupont Decomposition					
Profit Margin	5.16%	3.16%	7.17%	7.64%	3.90%
Asset Turnover	0.77	0.65	0.67	0.69	0.64

International Paper pursues a business strategy of product differentiation by focusing on sustainability. Their products are unique because they are mass-produced with renewable resources in a cleaner process than the alternatives in the market. Their

mission statement declares that their goal is to improve the planet and people's lives by using renewable resources to create products that people depend on daily. Doing things the right way is a significant focus of the company; they do this by constantly innovating the production process to be more environmentally friendly. Many of their long-term goals are related to becoming as sustainable as possible to benefit future generations by helping save the planet from climate change.⁴⁷This strategy causes International Paper's products to stand alone in the market because they can produce large amounts in a safe and planet-friendly process.

In recent years, supply chain issues have negatively impacted International Paper's operations. This is especially true in the post-Covid world where supply chain interruptions are becoming more pervasive, forcing corporate executives to scramble for solutions. These interruptions include areas such as inventory levels, transportation issues, and labor shortages. We recommend that IP take the time to shore up each component of the supply chain by having an action plan. This plan would focus on increasing reserves of extra inventory and retaining labor should there be a disruption in the supply chain.

The just-in-time inventory method has become a popular way to prevent inventory levels from being too high. As part of the action plan, however, we suggest that IP keep levels of inventory five percent higher than usual to be prepared for any shortages that may occur. As IP saw in 2021, events such as the deep freeze of February and heavy rain in the southeast caused shortages of caustic soda and containerboard

⁴⁷ <https://www.comparably.com/companies/international-paper/mission>

inventory.⁴⁸ With extreme climate events occurring more regularly, IP would be best suited to maintain these higher inventory levels to combat any potential shortages. Since inventory is so hard to come by currently, we recommend that IP increase inventory levels gradually.

Recently, another threat within the supply chain has been labor shortages. IP has felt these shortages not only within the company, but also with its supplier and customers. The lack of labor impacts production volume as well as cost.⁴⁹ To combat the labor shortage, we suggest that IP should implement a program that focuses on the retention of current employees. This program would work to make sure IP offers competitive salaries as well as a positive work environment. Both measures would ensure that IP does not suffer from a high turnover rate which is common in manufacturing.

Initially, this action plan might cause expenses to increase. However, after a few years, the benefits will start to show in increased revenue and assets. Buying more inventory will result in an increase in expenses as well as an increase in assets. The positive of having higher inventory levels will show once there is a shortage in IP's supply chain. When this happens, IP will continue to run effectively which in turn will keep revenue steady as opposed to a decrease due to a shortage. Implementing a retention plan for current employees will also increase expenses initially. Nevertheless, keeping a low employee turnover rate will result in less being spent on training new employees and fewer costs resulting from labor shortage inefficiencies. The retention plan will ultimately

⁴⁸ <https://www.spglobal.com/commodity-insights/en/market-insights/topics/commodities-2022>

⁴⁹ https://www.bizjournals.com/memphis/news/2022/01/28/international-paper-supply-chain-labor-q4-2021.html?ana=TRUEANTHEMTWT_MB&csrc=6398&taid=61f44b5e669f060001f1ecf0&utm_campaign=trueAnthem%3A+Trending+Content&utm_medium=trueAnthem&utm_source=twitter

lead to higher revenues and operating costs as IP will not have to spend more to compensate for the lack of labor. The following table shows the financials of IP recast to account for this solution.

Table 2: Supply Chain Financials			
	2022	2023	2024
ROA	5.96%	7.83%	9.56%
Profit Margin	7.92%	10.71%	13.47%
Asset Turnover	0.75	0.73	0.71

A key threat to International Paper is increased regulation and fast-moving developments in ESG disclosure and implementation. ESG stands for Environmental, Social, and Governance, representing important aspects of corporate responsibility for stakeholders. The environmental portion refers to IP's impact on natural resources, including waste and energy management. The social aspect depicts IP's internal and societal social impacts, which includes metrics on diversity and community relations. Lastly, governance refers to IP's board of directors and management, targeting composition and compensation.⁵⁰ Attention to each of these components is necessary to the success of International Paper, which operates in the forestry and paper industry. This industry places IP at risk to several climate factors, making sustainability a priority for long-term growth. With ESG standards being drafted currently by the International Financial Reporting Standards Foundation, the European Union, The Securities and Exchange Commission, and countless other bodies⁵¹, IP cannot settle for mere compliance, it must outpace environmental, social, and governance standards by integrating sustainable practices into its business model as soon as possible.

One aspect of ESG regulation and reporting is the ESG score. An ESG score takes into account certain items that might not be presented on the financial statements explicitly but relate to economics, social, and governance criteria. An ESG score involves being transparent with the public about the nature of your business, and this transparency allows for accountability between the public and the company. This score is of great value to a company because it reveals how a company looks to the future and

⁵⁰ <https://www.njcpa.org/article/2021/09/15/esg-101-the-benefits-and-why-it-s-growing-in-importance#:~:text=Proven%20effects%20include%20smoother%20operations,results%20beyond%20solid%20financial%20performance.>

⁵¹ <https://www2.deloitte.com/us/en/insights/topics/strategy/esg-disclosure-regulation.html>

takes into account other aspects of its business that go farther than just the numbers. An ESG score is growing in importance today, especially when talking about the impact of COVID-19 and climate change. This score allows investors to look at the true value of a company. Specifically, having a good ESG score is key for International Paper because of its focus on sustainability. International Paper does a good job of revealing its goals for sustainability and renewable solutions to the public by having its mission statement along with its progress on goals for 2020 on its website and continuing to do this will help to improve their ESG score. Since International Paper is doing well in the environmental sector of ESG, they could work more on improving social and governance criteria. Ensuring that they have a strong connection with their workforce and clear communication. They could also ensure that they are up to date with social trends. Increasing their social media presence to make the company relatable to the public could increase customer interaction and transparency all in one. Overall, International Paper does well on realizing the importance of an ESG score, but there is always room for improvement, and small improvements could lead to a higher score and more investors.

Implementation of ESG practices and disclosure into IP requires broad changes to be made to all aspects of the company. This starts at the governance level. Issues related to ESG should be frequently discussed in the boardroom. IP already named its first chief sustainability officer, Sophie Beckham, in 2020⁵², which places environmental issues on the agenda at meetings. However, maximum emphasis should be placed on ESG since it has such a strong impact on the future of IP. Thus, IP should consider creating an ESG

⁵² <https://www.bizjournals.com/memphis/news/2020/02/19/ip-names-first-ever-chief-sustainability-officer.html#:~:text=Sophie%20Beckham%20named%20chief%20sustainability,%2D%20Memphis%20Business%20Journal>

committee on its Board of Directors, which would oversee progress toward targets and delegate tasks to management. This would help IP work toward its Vision 2030 goals, keeping with the global standard of more diversity and sustainability in business.

Assuming average base compensation of \$1.5 million per board member, we foresee the addition of two board members who are intelligent in environmental and social issues to be beneficial, setting the cost of this program at \$3 million per year.⁵³

The benefits of ESG mindfulness and action are immeasurable, and the consequences of ignorance are catastrophic. ESG is a concern for all stakeholders, including many who claim that it significantly impacts their dealings with companies. According to the 2021 Deloitte Global Millennial and Gen Z Survey, younger people tend to support businesses that “mirror that same commitment to driving positive change for society, putting people and planet ahead of profits.”⁵⁴ This translates directly to employee retention, as most employees want their employer to hold sustainable values. Therefore, by continually addressing ESG issues and integrating support mechanisms into IP, employees are more likely to contribute to greater operational efficiency, driving costs related to retention and training down. To quantify this benefit, we assume that a learning curve would occur through increased employee retention, thus increasing productivity. We estimate that this productivity increase would increase revenues by ten percent per year. Investors and customers are also interested in ESG issues. With these issues at the forefront of business today, investors are typically unwilling to provide capital to companies not displaying innovative solutions to social and environmental

⁵³ <https://www.salary.com/tools/executive-compensation-calculator/timothy-s-nicholls-salary-bonus-stock-options-for-intl-paper-co>

⁵⁴ <https://www2.deloitte.com/us/en/insights/topics/strategy/esg-disclosure-regulation.html>

issues. Customers are much the same as they have access to unlimited information, which can fuel their desire to support companies mirroring their sentiments for greater social responsibility. This would lead to greater access to capital through greater investment from shareholders. We estimate that this would increase cash by five percent each year, signaling necessary growth in the company in an increasingly environmentally conscious culture and regulatory environment. Overall, ESG is linked to higher profitability as investments continue to grow in ESG. The following table shows our return on assets, profit margin, and asset turnover if this solution is implemented.

Table 3: ESG Solution Financials			
	2022	2023	2024
ROA	4.13%	4.32%	4.53%
Profit Margin	5.39%	5.80%	6.25%
Asset Turnover	0.77	0.75	0.72

In conclusion, International Paper utilizes a product differentiation strategy to distinguish itself from its competitors in the paper and pulp industry. Two major threats this industry faces are supply chain issues and ESG disclosure regulations. To address these threats in a manner consistent with IP’s strategy and mission, we determined action plans to mitigate risk and increase profitability over the next three years. This lesson taught us to critically examine clients’ financials through the perspective of their biggest threats. This prepares us to serve clients through risk mitigation and creative solutions.

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case.

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International Paper
Week 5
March 30, 2022

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As a large global corporation, International Paper faces many risks in its business. These risks pertain to their operations, the economic environment, and the technological environment. This week, we researched the greatest threats that IP is facing in these areas, while also recommending mitigation strategies. Much of this research came from news articles and internally produced reports from International Paper to determine what experts define as their most detrimental threats. Some examples of mentioned issues include supply chain risk, the Russian conflict, and cybersecurity concerns.

As is the case with most manufacturing companies post-COVID, the greatest operational risk for International Paper is supply chain disruptions. All stages of the supply chain have experienced problems in the past two years that have greatly affected IP's operations. Not only has IP dealt with material shortages, but they have also faced labor shortages, a tight transportation market, and higher supply chain costs in general. As IP has noted, demand for its products has been strong, but problems in the supply chain have constrained how well IP has been able to fill those demands.

As mentioned above, several sources of these supply chain risks pose a danger to the company. Rising supply chain costs have been a great hindrance in taking advantage of the strong demand that IP has seen for its products. Tim Nicholls, IP's chief financial officer, recently noted that supply chain costs jumped \$170 million in 2021, which was more than half of the increase in total costs for the year.⁵⁵ Included in these higher costs were raw materials such as caustic soda which is key in making paper and pulp products. Shortages in caustic soda were caused by the deep freeze of February 2021 and the

⁵⁵ <https://www.bizjournals.com/memphis/news/2022/01/28/international-paper-supply-chain-labor-q4-2021.html>

ensuing heavy rains that followed in the gulf coast region. S&P Global noted that “US export and domestic spot caustic soda prices entered 2021 at \$225/dmt FOB USG and \$245/dst FOB plant, respectively. Both were last assessed July 27 at \$475/dmt FOB USG and \$650/st FOB plant, respectively.”⁵⁶ These tremendous increases in as little as seven months display how rapidly supply chain costs can change and disrupt IP’s operations.

Two other risks within the supply chain are the ongoing labor shortage and the tight transportation market. IP notes several times in its annual report how the labor shortage and constrained transportation environment have continued to limit the company from operating at full capacity. On the transportation side of things, record high freight rates and limited trucking capacity forced IP to keep “extremely low” inventories of its containerboard.⁵⁷ Not only is IP struggling to find the materials it needs, but it is also struggling with securing those materials. “The Great Resignation” has also not been kind to IP as the company has struggled with a shortage of workers as well as higher labor costs. The lack of workers is further compounding the supply chain issues and preventing IP from providing all that is demanded. Mark Sutton, the chief executive officer, perfectly described the ongoing crisis when he said “what we’ve got is a fair amount of demand and orders but the inability to get it made or get it shipped.”⁵⁸

International Paper could take several routes to mitigate all these risks within the supply chain. One strategy would be to keep higher inventory levels on hand. Keeping

⁵⁶ <https://www.spglobal.com/commodity-insights/en/market-insights/latest-news/electric-power/072921-international-paper-sees-higher-costs-supply-chain-snags-through-2021>

⁵⁷ <https://www.spglobal.com/commodity-insights/en/market-insights/latest-news/electric-power/072921-international-paper-sees-higher-costs-supply-chain-snags-through-2021>

⁵⁸ <https://www.bloomberg.com/news/articles/2022-01-27/cardboard-boxes-shortage-is-latest-disruption-to-global-shipping>

high levels of inventory is not always a desirable strategy, however, during these uncertain times, it would be a smart choice for IP. With more inventory on hand, IP can be ready to meet demand if any interruptions happen within the supply chain. In terms of the labor shortage, IP should focus on retaining current employees through a retention program. Lowering employee turnover is key for IP as replacing labor in this current market is a difficult task. Finally, IP needs to work with its accountants to see where costs can be shored up in terms of transportation and other supply chain expenses. These costs are sometimes out of the company's control so any action that may facilitate cost reduction be reduced should be taken into consideration. Since IP is such a large exporter of goods, it could look into outsourcing transportation if it is a cheaper option. The main objective for the company would be to make sure all transportation is efficient and cost-effective.

International Paper faces many macroeconomic risks in its operations as a multinational corporation. Currently, we judge its two most significant threats to be the Russian conflict and rising inflation. To begin, Russia invaded Ukraine in February 2022 to bring about "denazification," according to President Vladimir Putin. This attempt to seize Ukraine to create a unified Russia comes as Ukraine was integrating with Western society through requested acceptance into North Atlantic Treaty Organization (NATO) and the European Union (EU).⁵⁹ Naturally, many Western companies have been re-evaluating their investments and operations in Russia as conflicts continue. For example, Exxon Mobil Corp. is exiting Russia by divesting its investments and leaving its

⁵⁹ <https://www.wsj.com/articles/ukraine-russia-war-invasion-whats-happening-11646157211?page=1>

consortium in the country. FedEx Corp. has also halted operations in Russia, stopping deliveries bound for the country.⁶⁰ Similar to these companies, IP has a sizable investment in Russia. IP has a 50/50 joint venture with Ilim Group in Russia, which creates the largest integrated paper and pulp manufacturer in the country. The total annual paper and pulp production of this venture is more than three million tons, supporting its market leadership in Russia and China.⁶¹ IP earned \$311 million from the Ilim venture in 2021, a significant increase from \$48 million in 2020.⁶²

A second key macroeconomic threat to International Paper is rapidly increasing inflation. Inflationary pressures are a recent issue, with IP stating in its 2021 annual report, “While inflationary increases in certain input costs, such as energy, wood fiber, and chemical costs, have an impact on the Company’s operating results, changes in general inflation have had minimal impact on our operating results in 2019 and 2020.”⁶³ With inflation becoming increasingly problematic in 2021 and continuing to exacerbate in 2022, higher operational costs will plague IP. U.S. inflation rose to a 7.9 percent annual rate in February 2022, which shows no sign of returning to slowing with the Ukraine conflict further straining the global supply chain.⁶³

Along with these threats we have discussed above, there need to be action plans to mitigate the macroeconomic risks International Paper is facing. The Russian threat needs

⁶⁰ <https://www.wsj.com/articles/what-companies-have-pulled-back-from-russia-11646425481>

⁶¹ <https://www.internationalpaper.com/company/regions/europe-middle-east-africa/about-us/international-paper-in-russia>

⁶² <https://d18rn0p25nwr6d.cloudfront.net/CIK-0000051434/6a1693f3-90b3-43dc-8b1c-fd3252931405.pdf>

⁶³ <https://www.wsj.com/articles/us-inflation-consumer-price-index-february-2022-11646857681>

to be handled cautiously. IP's contract with Russia for their joint venture is up for renegotiation in October, so we suggest that the company continues with the joint venture until then. At the time of renegotiation, IP can examine the political climate for insight on a possible exit from the country. International Paper recently announced that it might sell its 50% stake in the venture but continue with operations.⁶⁴ Before International Paper worked with Russia, the Ilim group asked for Vladimir Putin's help in saving them from a hostile takeover, making the group's loyalties more complex. Selling its ownership is the only way for International Paper to get out of the contract with Russia before it is up for renegotiation.⁶⁵ The Ilim joint venture is a large source of investment income for International Paper as well as a significant harvest and export supply of wood and pulp products. It is in IP's best economic interest to continue operations in Russia until October. For now, without pulling out of the joint venture, International Paper could resolve conflict by starting to transition operations to the United States and other stable countries to build a stronger foundation in the event of more political strife.

IP must address the threat of inflation. Inflation is becoming increasingly more pressing, and actions taken to mitigate this risk are not very attractive. International Paper could increase their prices to match the increase in their cost to sell goods. There could be a potential backlash from customers after raising prices, so the company could

⁶⁴ <https://www.commercialappeal.com/story/money/business/2022/03/11/international-paper-ilim-group-russia-business-impact/7006281001/>

⁶⁵ https://s1.q4cdn.com/597881801/files/doc_financials/2020/ar/2020-Annual-Performance-Summary.pdf

offer certain special services or rewards for valued customers.⁶⁶ Inflation also affects the company's supply chain, causing shortages and increased costs. International Paper should adjust its input of raw materials to ensure its output can reach its demands. The company should also work on employee retention to ensure that the company is united while having to make economic adjustments due to inflation.

As one of the most influential companies in the global production and distribution of paper and pulp-based products, it is of utmost importance to create safeguards against online threats. Cyber security is a crucial part of protecting a company's data, processes, and innovations. It is defined as "the body of technologies, processes, and practices designed to protect networks, devices, programs, and data from attack, damage, or unauthorized access."⁶⁷ The need for quality security has been exacerbated over the past month as global unrest from the conflict between Russia and Ukraine has grown. Russia has already revealed an adept ability to infiltrate cyberspace in Ukraine as "hackers managed to knock out electric power for around 230,000 customers in Western Ukraine".⁶⁸ Each passing day, the world further integrates technology into all facets of life, and ignoring the importance of cybersecurity will be detrimental to a business with the magnitude of IP.

To further grasp the importance of cyber security in the business world, one must approach it through a business lens. Ntvia, a technology consulting firm, released a study

⁶⁶ <https://www.fundingcircle.com/us/resources/5-ways-to-protect-your-business-from-the-effects-of-inflation/>

⁶⁷ <https://digitalguardian.com/blog/what-cyber-security>

⁶⁸ <https://hbr.org/2022/03/what-russias-ongoing-cyberattacks-in-ukraine-suggest-about-the-future-of-cyber-warfare>

in 2020 that revealed: "43% of cyberattacks target small businesses."⁶⁹ While IP does not fall into that category, Ntiva argues that "one of the reasons hackers target small businesses is to use them as stepping stones to get to Fortune 500 companies".⁷⁰ This leaves IP in a vulnerable position if the proper security measures are not implemented. There are many different avenues that companies can experience cyber attacks from. First, it must be recognized that attacks can derive from internal sources. For example, a competitor could pay a current employee to download and distribute the processes that give the company a competitive advantage. In the case of IP, the vertical integration surrounding the entire process of gathering raw materials to distributing finished products is a massive competitive advantage. Weak internal security could open the door for a bribed employee to have access to an abundance of knowledge on how IP has established that competitive advantage. At face value, an internal attack seems unlikely because companies trust their employees. However, this is entirely possible and should be treated with as much caution as any other security threat. External actors act as the other source of cyber attacks. There are too many reasons why companies are targeted in cyber attacks, but a common objective is to steal data. For example, IP has to store the crucial information of its extensive customer list to process orders and provide goods. This information could include bank account numbers, addresses, employee specifics, and other details that define their relationship with IP. If left unchecked, an attack on IP's pool of data could result in the information of their clients being stolen and sold to third parties. The International Federation of Accountants states, "Loss of customer data may

⁶⁹ <https://www.ntiva.com/blog/cyber-security-threats-why-hackers-target-small-businesses>

⁷⁰ <https://www.ntiva.com/blog/cyber-security-threats-why-hackers-target-small-businesses>

result in legal or regulatory action against the organization."⁷¹ This is significant because IP would suffer at the hands of legal action, as well as lose the trust of its clients.

Understanding the sources of cyber threats helps in the formation of plans to mitigate risk. One of the most important roles of an account is to evaluate internal controls. Internal controls give management the foundation needed to foster a healthy business. This is the best way to combat the threat of an internal attack. Management should focus on the segregation of duties, making sure that crucial information surrounding the supply chain, raw material conversion, and clients is kept separate and only accessible by authorized personnel. Another way to mitigate internal risk is to “implement security software such as a traffic monitoring system.”⁷² Management can establish a pathway through documents that can be considered a trend toward information theft, and a traffic monitoring system will provide management with the necessary software to track employees along the path. Internal threats will always be present, but the implementation of safeguards will mitigate the risk of employees conducting attacks. Countering external threats is more difficult than internal. Along with the rigorous task of finding out the motive behind an attack, costs surrounding external cyber protection can be very expensive. It is predicted that “worldwide security spending will hit \$170 billion in 2020,” a massive number that continually rises each year.⁷³ Fortune 500 companies are sparing no expense on cybersecurity. Historically, companies in that category who have experienced security breaches have “lost hundreds of millions in legal fees and seen an

⁷¹ <https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/discussion/cybersecurity-critical-all-organizations-large-and-small>

⁷² https://www.netwrix.com/Insider_Threat_Prevention_Best_Practices.html

⁷³ <https://www.snhu.edu/about-us/newsroom/stem/what-is-cyber-security>

average stock decline of 7.5%.”⁷⁴ The potential for losing millions of dollars outweighs the cost of quality cybersecurity. If IP invests in the best possible cybersecurity today, it will save more money tomorrow. To begin the process of mitigating external risk, “The first line of defense for any organization is to assess and implement security controls.”⁷⁵ By definition, security controls are risk mitigation techniques, and IP could start by establishing a cybersecurity awareness program that teaches employees what to look for when deciding if there is a potential threat. IP could then create a security operations center with the goal of “continuous monitoring of a network, detection management, and incident response.”⁷⁶ This can be achieved through the creation of a physical facility or using it as a service. Security operations centers used as a service are becoming the norm in cybersecurity. Some firms specialize in creating security that is tailored to the business. IP can save on costs by utilizing one of these services to run their cybersecurity. It is recommended that IP focuses on creating internal controls that mitigate internal risk, along with investing in a security operations center as a service to conduct their external risk mitigation. Diligence in establishing the correct security will lead to a safer and more profitable International Paper.

In consideration of the numerous threats that International Paper faces, it is clear that operating a business is complex and requires knowledge of the inner workings of a company as well as the greater economic climate. IP and most other multinational companies are currently facing a great deal of uncertainty due to operational, macroeconomic, and cybersecurity concerns. However, there are ways to mitigate these

⁷⁴ https://pages.bitglass.com/rs/418-ZAL-815/images/Bitglass_TheCloudfathers_Fortune500.pdf

⁷⁵ <https://purplesec.us/prevent-cyber-attacks/>

⁷⁶ <https://purplesec.us/security-operations-center-soc/>

risks and propel IP into a successful future. Therefore, this case taught us the importance of analysis of the greater environment in business as it is necessary to maintain success.

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case.

Molly McD

Rennery Mc

[Signature]

Barry Ross

Robert Ross

International Paper

Week 6

April 5, 2022

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Agenda

Greatest Risks for IP

Risk Advisory

Audit

Advisory

Tax Strategies

Questions

Past 5 Years Financials

Accounts: in millions	2021	2020	2019	2018	2017
Revenue	\$19,363	\$20,580	\$22,376	\$23,306	\$21,743
Cost of Goods Sold	\$13,832	\$14,373	\$15,268	\$15,555	\$15,300
Selling, General and Administrative Expense	\$1,385	\$1,520	\$1,647	\$1,723	\$1,653
Operating Income	\$999	\$650	\$1,604	\$1,781	\$848
Assets	\$25,243	\$31,718	\$33,471	\$33,576	\$33,903
Liabilities	\$16,161	\$23,850	\$25,753	\$26,193	\$27,362
ROA	3.96%	2.05%	4.79%	5.30%	2.50%
Dupont Decomposition					
Profit Margin	5.16%	3.16%	7.17%	7.64%	3.90%
Asset Turnover	0.77	0.65	0.67	0.69	0.64

Greatest Risks

Supply Chain Disruptions

- Labor shortage
- Material shortage
- Tight transportation market
- Paper mill maintenance and outages

Cyber-Security

- Loss of Data, Processes, and Innovations
- Internal and External threats
- Growing global threat

Russian Conflict

- 50/50 joint venture with Ilim
- Global operations with great income potential

Risk Advisory

Supply chain disruptions are an operational threat

- Recommendation:
 - Cut costs due to increase in supply chain expenses
 - Work to keep employees to counter labor shortage

Cybersecurity is an integral part of protection for a business

- Growing threat to Data, Processes, and Innovations as the world shifts toward using more technology
- Recommendation:
 - Segregation of information to protect from internal threats
 - Increased spending on firewalls and data storage to protect from external threats

The Russian conflict poses a macroeconomic threat

- 50/50 joint venture with Ilim
- Recommendation:
 - Transition more operations to the US
 - Evaluate Ilim venture when contract is due for renegotiation in October

Audit

Inventory

- Misstatements and incorrect valuations
- Solutions:
 - Cloud based inventory management
 - Packing slips
 - Purchase orders

Sales

- Existence and completeness
- Solutions:
 - Numbering system for invoices
 - Review random samples of customer statements
 - Strong company culture

Variable Interest Entities

- Represents an ambiguity between the dichotomy of relevance and faithful representation
- Solutions:
 - Annually assess all elements of its entities
 - Database system housing information regarding variable interest entities
 - Narrative walkthrough of the relationships between International Paper and its entities

Advisory

Supply Chain

- Increase inventory where possible
 - Some materials may expire quickly
- Employee retention program
 - Focus on keeping current employees

ESG

- Lower ESG score
- Help follow regulation
- Provide internal ESG guidance
 - Board of directors
 - Public Policy and Environment Committee
 - Employee diversity programs



Tax Strategies

Research and
Development
(R&D) Tax Credit

Interest Charge -
Domestic
International Sales
Corporation

Research and Development (R&D) Tax Credit

Deducts a portion of R&D expenses from federal income tax liability

Innovations:

- ClimaShield
- MasterPack
- Client-specific packaging

No R&D expense for past 3 years

Advantages:

- Tax benefit
- Increased innovation

Disadvantages:

- Only in the US
 - Does not apply to work done client-specific innovation
 - Increased expenses
-

Tax Savings from R&D Credit

Table 1: R&D Credit Calculation (in millions)	
Research and Development Costs	\$29.00
Multiply by 6% (ASC)	6.00%
R&D Tax Liability Reduction	\$1.74

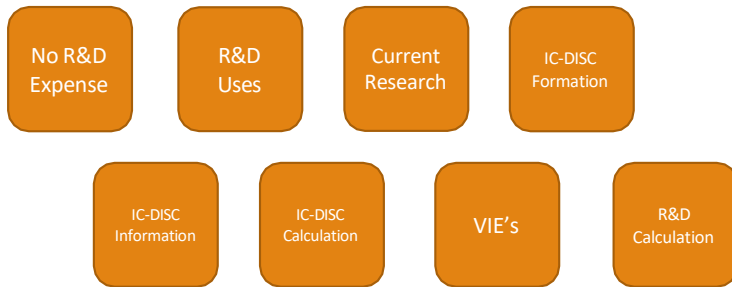
Interest Charge - Domestic International Sales Corporation

IC-DISC	Advantages	Disadvantages	Calculation
<ul style="list-style-type: none"> An incentive specifically provided by the tax code that allows U.S. exporters to increase their ability to compete globally by reducing U.S. tax liabilities 	<ul style="list-style-type: none"> Reduces tax burden Income can be loaned back to exporter Creating and Maintaining it is not overly burdensome compared to the savings it provides 	<ul style="list-style-type: none"> At least 95% of gross receipts must be qualified export receipts 	<ul style="list-style-type: none"> Greater of 4% of the operating company's gross receipts from qualified exports or 50% of net income from qualified exports

Tax Savings from IC-DISC

Qualified Export Gross Receipts	\$20,580.00
Expenses	-19,930.00
Export Sales Net Income	\$650.00
4% Export Gross Receipts	823.20
50% Export Net Income	325.00
IC-DISC Commission	823.20
21% Federal Tax	172.87
15% IC-DISC Dividend Sales Tax	123.48
Total Tax Savings	\$49.39

Appendix



No R&D Expense in 2019-2021

- No clear answer
- Client-specific research
 - Creating custom packaging
 - Optimizing client's value chain activities
 - MasterDesign
- COVID-19
 - Strained resources due to economic downturn

Uses of R&D

- Process efficiencies to offset the rising costs of raw materials and labor
 - Digital manufacturing
 - Drones
 - Remote mill automation
- Climate-resistant and environmentally friendly products
 - Previous innovation – ClimaShield
 - Vision 2030 achievement
 - Sustainable operations
 - Lower-carbon economy through fiber-based products



IP Research

- IP funds forestry research at four universities, asking for research in:
 - Remote sensing technology
 - Timber supply modeling
 - Understanding and managing risk from the forest to the mill
 - Relative advantages of important global wood baskets
- They believe that academic research is a key aspect of forest sustainability and helpful in getting essential information into forest owner's hands
- IP also partnered with The Nature Conservatory to identify natural climate solutions that can be replicated in multiple geographies around the world

How to Form an IC-DISC


- Several steps must be taken to form an IC-DISC.
- First, the company must be established under state law.
- The company must offer only one class of stock with a par or stated value of at least \$2,500.
- The IC-DISC must maintain separate books and records, but otherwise, there are no changes to business
- The exporter and the IC-DISC enter into a commission agreement whereby the IC-DISC serves as a sales agent.
- The IC-DISC is not required to have an office or any employees, and it does not have to own any tangible assets or perform any services.



More Information on an IC-DISC

- An Interest Charge Domestic International Sales Corporation (IC-DISC) offers federal income tax savings for making or distributing U.S. products for export. It is not a tax shelter but creates permanent tax savings by transferring income from the exporter to the tax-exempt IC-DISC through an export sales commission.
- Can increase liquidity for shareholders
- Outside of the tax benefit an IC-DISC can supply ongoing financing to reduce cost of capital. An IC-DISC is not required to distribute all commission income to shareholders. In some cases, income can be loaned back to the exporter creating tax deferral and working capital.

IC-DISC Calculation

- The exporter pays an agreed-upon commission (up to a maximum of the greater of 4% of its qualified export receipts or 50% of its taxable income from qualified export receipts) to the IC-DISC and deducts the commission payment, reducing its taxable income subject to tax at ordinary tax rates. Since the IC-DISC is tax-exempt, it will not pay tax on the commission income.
 - The IC-DISC will subsequently pay a dividend to its shareholders equal to the commission payment, meaning those dollars will be taxed at the preferential qualifying dividend tax rate, a maximum of 20%.
- 

Variable Interest Entities (VIEs)

- VIEs are a legal business structure in which an investor has controlling interest despite not having the majority of voting rights. These entities are created to protect the business from creditors and legal action. This account represents an ambiguity in the accounting profession between the dichotomy of relevance and faithful representation.
- In 2006, International Paper sold 5.6 million acres of forestlands for installment notes totaling \$4.8 billion. These installment notes are referred to as “Timber Notes” in the annual report.

R&D Calculation

- Assumed no startup costs since IP has an innovation division
- Assumed \$29 million in R&D expense (IP's average R&D expense in 2017-2019)
- No R&D expense over past 3 years
 - Use the alternative simplified credit (ASC) method
 - 6% of qualified research expenses (QREs)
 - Can use the regular research credit (RRC) when there is consistent yearly R&D spending
 - Typically results in higher deductions