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Presentation

Operator

Thank you for standing by, and welcome to the Sonoco Second Quarter 2025 Earnings Conference Call.
[Operator Instructions]

I'd now like to turn the call over to Roger Schrum, Interim Head of Investor Relations and Communications. You may begin.

Roger P. Schrum

Interim Head of Investor Relations

Thank you, Rob, and good morning, everyone. Yesterday evening, we issued a news release and posted an investor presentation that reviews Sonoco's Second quarter 2025 financial results. Both are posted on the Investor Relations section of our website at sonoco.com. A replay of today's conference call will be available on our website, and we'll post a transcript later this week.

If you would turn to Slide 2, I will remind you that during today's call, we will discuss a number of forward-looking statements based on current expectations, estimates and projections. These statements are not guarantees of future performance and are subject to certain risks and uncertainties. Therefore, actual results may differ materially.

Additionally, today's presentation includes the use of non-GAAP financial measures, which management believes provides useful information to investors about the company's financial condition and results of operations. Further information about the company's use of non-GAAP financial measures, including definitions as well as reconciliations to GAAP measures, is available under the Investor Relations section of our website.

Joining me this morning are Howard Coker, President and CEO; Rodger Fuller, Chief Operating Officer and Interim CEO of Sonoco Metal Packaging EMEA; Jerry Cheatham, Interim Chief Financial Officer; and Paul Joachimczyk, our new Chief Financial Officer. For today's call, we have prepared remarks followed by Q&A.

If you turn to Slide 4 in our presentation, I will now turn the call over to Howard.

Robert Howard Coker

President, CEO & Director

Thank you, Roger, and good morning, everyone. Our second quarter results reflected the growing strength of the new Sonoco as we produced strong top line and bottom line growth along with margin expansion. However, we were impacted by global macroeconomic pressures which affected consumer and industrial demand, and by the delay of the European packing season compared to last year.

As Slide 5 shows, net sales grew 49% and adjusted EBITDA was up 25% while adjusted EBITDA margin expanded by 100 basis points to 17.2% due primarily to improving margins from our industrial business. Total adjusted earnings grew 7% and were impacted by higher-than-expected interest expense. The 115% growth in adjusted EBITDA in the Consumer Packaging segment reflects 10% gains of volume/mix in our metal U.S. business and the addition of Eviosys acquisition, which we have rebranded as our Sonoco Metal Packaging, SMP EMEA. The segment also generated solid productivity savings.

Our industrial segment grew adjusted EBITDA by 16% due to a favorable price cost environment and productivity. Industrial segment EBITDA margins expanded to 19%, which was the seventh consecutive quarter of margin improvement. This performance is a tribute to our industrial team's efforts to drive value-based pricing and focus on productivity savings.

Jerry will go through all the numbers and business drivers for the quarter in a few minutes. But I also want to formally introduce Paul Joachimczyk, who joined us as Chief Financial Officer at the end of June. We're really excited to have Paul join us, and he will discuss our guidance before we take your questions.

Over the past 5 years, we've been progressing a transformation journey to create a more focused enterprise providing value-added metal and fiber packaging. Slide 6 illustrates our strategy, in particular, what markets we will participate in and how we expect to win in these markets. We're focused on businesses where we can drive a competitive advantage through advanced material science and technology expertise, where our products possess high functionality and where we can best leverage continuous process improvements to drive productivity.

We now have a portfolio of businesses with a mix of large growing global consumers that value the competitive advantage we provide. As always, Sonoco wins through superior customer service, strong operational execution, innovation and a culture that is built on our guiding principle of people build businesses by doing the right thing.

As illustrated on Slide 7, we believe we have now focused our portfolio along the competitive strengths that will allow us to win in the marketplace. Our core businesses include Metal Packaging, Rigid Paper Containers and Industrial Paper Packaging. In each of these businesses, we check the box on our key strategic principles, including focusing on markets where we have market leadership.

This slide also illustrates why we decided to divest Thermoformed and Flexible Packaging and why we plan to sell ThermoSafe, our temperature-assured business. Both have developed into meaningful, profitable and attractive businesses. However, we felt they lack certain aspects that will allow us to best deploy our operating model to our advantage. So we believe monetizing these assets to redeploy capital back into our core was the right capital allocation decision.

Now turning to Slide 8. We continue to progress our transformation journey in the second quarter with the successful divestiture of TFP and the utilization of proceeds and cash to reduce our net leverage ratio to below 3.8x. We're preparing ThermoSafe for a second half sale process, but the expectation that proceeds will be used to further reduce net leverage towards our target of 3 to 3.3x by the end of 2026. As a result of our portfolio changes, we're in the process of further optimizing our operating footprint and reducing support functions to align them with the needs of our fewer bigger businesses.

We've actioned approximately \$20 million in annual savings from stranded costs left by the divested businesses, but also we are now positioned to better leverage shared services strategies for some of our global administrative functions to better serve our business, our customers and to reduce costs.

Our successful integration of SMP EMEA continues, but the team is now projecting between \$40 million to \$50 million in run rate synergies by the end of this year. We also have line of sight to achieve greater than \$100 million in cost savings through 2026.

At the end of June, we were saddened by the news that Tomás López, CEO of SMP EMEA, had died in his hometown of Murcia, Spain. Lopez was a legend in the European can-making industry dating back to his leadership and developing Mivisa into the largest food can producer in the Iberian Peninsula and Morocco. He later became CEO of Eviosys and stayed on in that role when we acquired the business last December.

Rodger Fuller, our Chief Operating Officer and who has been leading the integration of SMP EMEA, was named interim CEO. Most of you are familiar with Rodger's 40 years of leadership experience at Sonoco. He has been deeply engaged since day 1 of the acquisition and worked alongside Tomás to build strong customer, employee and supplier relationships. While Tomás will be missed, Rodger is providing leadership stability, working with the team to continue our strategy of building global leadership in Metal Packaging.

I'll now turn the call over to Rodger to give us a brief update on SMP EMEA. Rodger?

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes. Thank you, Howard. Good day, everyone. If you turn to Slide 10, I'll review some key points related to Metal Packaging EMEA's second quarter performance, third quarter outlook, along with a preview of some significant growth wins that will help us in 2026 and beyond.

Second quarter results were impacted by the delay in the start-up of the European vegetable packaging season as compared to last year. As we've explained, approximately 40% of our EMEA sales are seasonal and dependent on the timing of the vegetable harvest. In addition, difficult macroeconomic conditions in Europe have slowed consumer demand, and we've also seen a decline in sardine availability in Africa, which has further reduced our volumes. That said, demand for pet food and certain premium food categories has remained resilient.

Looking at the third quarter, which is by far our strongest quarter, we're seeing the harvest season ramp up. Our customers and experts are predicting a solid vegetable harvest that could extend through October, and we expect other food categories to be in line with our expectations. As Howard mentioned, the team is making tremendous progress to achieve synergy savings in the second half of 2025 along with generating opportunities for cost savings that benefit our U.S. Metal Packaging business.

We recently integrated our U.S. and EMEA steel procurement teams into a single, globally focused organization based in Europe and led by a veteran Sonoco steel procurement expert. As we previously said, we expect significant procurement synergies in 2026 after they were delayed in 2025 due to the late closing of the acquisition.

So let me close with some exciting new growth projects that our EMEA team signed in the second quarter. First is a multiyear contract with a pet food customer in Eastern Europe, where we'll provide up to 400 million incremental units annually. We expect to start providing cans for this customer from existing operations late in the fourth quarter, and we'll be ramping up production in 2026. Also, we committed to developing a new satellite production facility in Eastern Europe to help manage their large volume needs.

Next is a new 5-year contract to provide unique-shaped cans for a powder nutrition product that will begin in the fourth quarter of 2026 and scale up in '27. The EMEA team is targeting several additional new customer opportunities that should lead to further volume growth in 2026 and beyond. I'm really excited to be working alongside such a strong international leadership team as we build upon their past success and drive future growth.

With that, I'll turn it over to Jerry for the quarterly financial review.

Jerry A. Cheatham

VP of Global Finance for Industrial Paper Packaging

Thanks, Rodger. I'm pleased to present the second quarter financial results.

Turning on Page 12 of the presentation. Please note that all results are on an adjusted basis and all growth metrics on a year-over-year basis unless otherwise stated. The GAAP to non-GAAP EPS reconciliation is in the appendix of this presentation as well as in the press release. Sales and adjusted EBITDA bridges are also in the appendix.

Adjusted EPS was \$1.37. Earnings per share increased 7% year-over-year, mainly driven by favorable price/cost performance in our industrial businesses of \$20 million and continued strong productivity of \$15 million, driven by SMP U.S. and industrial businesses and the net impact of acquisitions and divestitures. This was partially offset by favorable volume/mix in our industrial business and all other businesses and higher interest expenses.

Interest expenses were \$0.07 higher than anticipated due to the pull forward of amortization fees associated with the term loan paid off in April of this year and higher commercial paper balances. Second quarter net sales for continued operations increased 49% to \$1.9 billion. This change was driven by the impact of the SMP EMEA acquisition, strong volume in our SMP U.S. business and favorable price. Adjusted EBITDA of \$328 million was up by an impressive 25% and an adjusted EBITDA margins improved by 101 basis points to 17.2%, primarily driven by items that affected sales growth in addition to productivity improvements.

Page 13 has our consumer segment results on a continuing operation basis. Consumer sales were up by 110% due to the SMP EMEA acquisition, favorable volume and price. Our domestic Metal Packaging business achieved double-digit growth, reflecting solid demand and continued commercial execution. Sales

for our Global Rigid Paper Containers businesses were essentially flat as favorable price was offset by mix and lower volume. Consumer adjusted EBITDA from continuing operations grew a remarkable 115% year-over-year due to the impact of acquisitions, continued productivity gains, higher volume and the favorable impact of foreign currency.

Page 14 has our industrial segment results. Industrial sales decreased 2% to \$588 million. Results were impacted by lower volumes and actions to exit the China market, partially offset by better pricing. Adjusted EBITDA margins expanded by 290 basis points year-over-year in the second quarter, primarily driven by favorable price/cost dynamics and productivity gains. These benefits were partially offset by negative volume/mix. Adjusted EBITDA increased by \$15 million to \$113 million, representing a 15% increase.

Page 15 has our results for the all other businesses. All other sales were \$95 million and adjusted EBITDA was \$16 million. Sales were flat as higher volumes in ThermoSafe were offset by weaknesses in our plastic industrial business. Adjusted EBITDA declined 8% as unfavorable mix and price/cost were partially offset by favorable productivity and other nonrecurring items.

And now I'll hand it over to Paul to walk us through an update on our full year guidance.

Paul Joachimczyk
Chief Financial Officer

Thank you, Jerry. First off, let me say that I'm deeply honored to join the Sonoco team at this exciting time for the company. With the recent acquisition and divestitures, it is time to reinforce the core values that have made Sonoco successful for more than 125 years that are grounded in the culture of innovation, collaboration and operating excellence. We are confident that our teams will drive the targeted synergies from the SMP EMEA acquisition and continue to build upon our global metal packaging foundation.

In my first weeks at Sonoco, I have been impressed with the strong operational foundation of the company. I also want to thank Jerry for doing an excellent job as interim CFO and helping me transition into the organization.

Looking at our outlook for the remainder of the year, as shown on Slide 17. We are maintaining our guidance with net sales in the range of \$7.75 billion to \$8 billion. While we have seen some softening of the market conditions due to global macroeconomic pressures, we are expecting strong results in our Metal Packaging and North American industrial businesses. From an adjusted EBITDA guidance, we remain confident in our range of \$1.3 billion to \$1.4 billion. Again, we see continued strength from our North American consumer and industrial businesses being partially offset by softness in Europe and other international markets. Delays in recovering rising input costs as well as impacts tariff uncertainty is having on overall market conditions.

For adjusted EPS, we are targeting the low end of our range of \$6 to \$6.20. This reflects our first half performance and the projected performance improvements in the second half. In addition, we are expecting variability in FX and interest helping to mitigate some of the macroeconomic impacts mentioned earlier.

Operating cash flows are still within our range of our previous guidance, but we are targeting the lower end due to higher-than-anticipated levels of net working capital usage, primarily from material inflation. We are extremely focused on improving our overall metrics and we'll continue to make the right strategic investments in the business to ensure we can hit our future strategic goals.

I will now turn the call back over to Howard for closing comments.

Robert Howard Coker
President, CEO & Director

Thank you, Paul, and again, welcome to Sonoco. One of the key tenets of our strategy is investing in ourselves to drive profitable growth and productivity. For the first half of 2025, we've invested \$188 million in capital and expect to be in line with our estimate of \$360 million in total spending by year-end.

If you turn to Slide 18, I'll highlight a few new projects. The first is a \$30 million investment we're making to expand production capacity to serve the growing U.S. adhesives and sealants market. This initiative will add a total of \$100 million additional units of annual capacity at three facilities in Florida, Kentucky and Ohio. Sonoco is one of the largest producers of cartridges for adhesives and sealants in the U.S., and we are currently sold out.

As part of the capacity additions, we will be adding new state-of-the-art technology, including digital printing. Recently, we expanded the robotic assembly of nailed wood reels in the Hartselle, Alabama facility to speed production, increase capacity and lower unit costs. Sonoco is the leader of the production of wire and cable reels in the U.S. and this new automation project will allow us to keep up with our customers who are expanding the domestic energy and communications infrastructure.

Overall, we're targeting \$65 million in productivity savings in 2025. To achieve that goal, we're updating several of our manufacturing operations with automation to improve efficiency and reduce costs. A great example is an autonomous forklifts and robotic assemblers we recently added to our Jackson, Tennessee Rigid Paper Containers operation.

New customers and product development is key to the Consumer Packaging business as growth as illustrated on Slide 19. Our SMP U.S. business is projecting 12% and 15% growth in food and aerosol cans, respectively. For the year, this growth is coming from both new and existing customers. And as Rodger mentioned, we have several new projects starting up in Europe in the fourth quarter and into 2026 and beyond. In addition, our Global Rigid Paper Containers business continues to launch new all paper and paper bottom cans for customers looking to substitute from less sustainable packaging substrate. As an example, we launched two new oil paper cans for pet nutrition products in the second quarter in Europe.

The sustainability of our metal and fiber-based packaging is also getting recognition. As shown on Slide 20, Sonoco and our customers won three awards for Sustainable Packaging Business of the year, Sustainable Brand and Sustainable Investment Projects at the Environmental Packaging hosted by Packaging News.

Slide 21 and 22, we've developed to better explain the key tenets of our investment thesis and to illustrate the new Sonoco, our businesses, our markets and our geographic footprint.

In closing, we are encouraged by our trajectory as we enter the busiest quarter of the year. We expect continued strong performance in our consumer segment with our SMP U.S. operation capitalizing on commercial wins to organically grow well above industry growth rates. And we continue the integration of our Metal Packaging EMEA operations and expect to exceed our synergy targets. And our legacy Industrial Paper Packaging segment should have another strong quarter as it continues to benefit from improved market conditions while focusing on driving margin expansion through operation and commercial excellence initiatives.

Finally, we remain mindful of external risks which are leading to global macroeconomic uncertainty that may affect our customers and consumers. We will remain flexible and focus on meeting the changing needs of our customers while consciously controlling cost, capital and reducing leverage while creating long-term value for our shareholders.

Operator, we will now take any questions.

Question and Answer

Operator

Your first question comes from the line of George Staphos from Bank of America Securities.

George Leon Staphos

BofA Securities, Research Division

So you mentioned you're pleased with the trajectory that you have going to the third quarter. Can you talk about, across your major businesses, what kind of run rate you're seeing on volume right now? And related to that, if you can talk specifically about SMP EMEA, what kind of organic volume growth or, it sounds like, declines did you see 2Q versus 2Q and what are you expecting in third quarter? And then I had a quick follow-on and I'll turn it over after that.

Robert Howard Coker

President, CEO & Director

Sure. Let me kind of go around the world. And I'll pass on the EMEA question to Rodger, but let me start with the paper can business. Expectation is we're heading into our strongest part of the year, really, September -- end of August, September and early October. But we're not forecasting significant growth, maybe 1% or so low single digit. But if we look backwards into Q2, the business was slightly down, but Europe played a part of that. And we all know what's going on in the European marketplace today. And surprisingly, Asia for the first time in a long time was down. So not forecasting a lot of heavy recovery but just slight going into the busy season.

On the metal can side here in the U.S., as I noted in my commentary, we saw about a 10% volume/mix type improvement in Q2. If you look at that on a unit base, container base, it's 15% up in food cans, 25% up in aerosol. We expect pretty close to that. Little bit difficult -- a little bit more of a difficult comp in Q3 particularly on aerosol, but the pack season is strong and the wins sustain themselves to the remainder of the year.

On the industrial side, just slightly up in the third quarter in total around the world. Almost I'd call it flat. In our biggest market here in North America or the Americas and what we really see happening there is while particularly in North America operating rates are strong, we see that continuing going forward with a pretty good lift from a price/cost perspective. And Rodger, if you want to talk about EMEA?

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes. Thanks, Howard. George, yes, thanks for the question. First, let me just say as expected, and it's clear to me now, we remain really excited about the fit of the SMP EMEA business into Sonoco and convinced that we can deliver all the value to the shareholders that we committed when we made the acquisition. So I feel like we're off to a good start with the team.

We acknowledge the first half was softer than expected, George. Two primary reasons. Number one, the sardine catch we talked about. But if you look at the balance of the fish segment, it's been on expectations for the first half. It's on expectations for the second half. And sardines is a relatively small subsegment of that overall segment, a small part of the overall segment. The vegetable harvest, we talked about. We're getting a late start. It looks like it's about 3 weeks behind. So if you think about the fact that 40% of our volume is seasonal to the vegetable market, you push that 3 weeks out into the third quarter and potentially into October as well, you can do that math and see what kind of growth that we expect coming in the third quarter versus the first half of the year.

July is off to a good start for our expectations. We're not building any kind of sardine recovery into our reforecast in the second half. Based on what we see now, it could be mid- to upper single-digit increases year-over-year in the third quarter. And so far in July, it looks like we're heading towards that level for

those reasons that I've already talked about. There's been no material loss of share in the business for any reason. So pretty upbeat on the third quarter versus last year at this point.

George Leon Staphos

BofA Securities, Research Division

Okay, Rodger. So let me maybe try to put a point on that and the last question, I'll turn it over. So was SMP EMEA raw numbers organically down 5% in 2Q? If you want to give us a range there. And then one thing I noticed, incremental margin in consumer were relatively light from my vantage point. I think you're up only like -- they were 12.5%. Any reason why?

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

No, I don't think so, George. I mean, the business is performing well. Even with the volume shortfall in the first half versus our expectations, the business produced positive productivity. The business is executing well as I said. No share loss. So for me, it could be -- go ahead.

George Leon Staphos

BofA Securities, Research Division

So were you happy with 12.5% incremental margin? Because that would be normally relatively light and with all the productivity. So I was just trying to get a sense there.

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes. The seasonal mix did impact margins to some degree in the first half for SMP EMEA, George. That's probably what you're seeing here. And George, could you repeat your second -- I think you're getting ready to do it again. So can you repeat that second half?

George Leon Staphos

BofA Securities, Research Division

So like mix effect on the incremental margin, I'm just wondering what was SMP EMEA's volume year-on-year in 2Q on an organic basis, down 5, down 10, down 3? Just a rough number.

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Your final, the 12.5%.

George Leon Staphos

BofA Securities, Research Division

12.5%?

Jerry A. Cheatham

VP of Global Finance for Industrial Paper Packaging

No, no, no. Volume was not down 12.5%. We'll give you a range but it's probably in that mid-single digit.

Operator

Our next question comes from the line of John Dunigan from Jefferies.

John Robert Dunigan

Jefferies LLC, Research Division

Guys, I appreciate all the details. I just wanted to touch on, first, it seemed like you guys had some stranded costs, stranded corporate costs that were coming through in the quarter. We hadn't really factored that in. Is that something that would improve moving forward? Or maybe you can give us just some thoughts around that.

And then the interest expense stepping up in 2Q here, is that something that we should see as more onetime in nature or a step-up kind of moving forward as you had a decent amount of debt paydown as well? So maybe just interest expense for the full year as well.

Jerry A. Cheatham

VP of Global Finance for Industrial Paper Packaging

Yes. Thanks, John. Let me take the interest expense question first. On the interest expense, yes, we do expect to see some improvement on that in the second half, really in line with what we previously assumed for the second half of this year. And also in the second quarter, we were impacted by about \$0.03 a share of a pull forward on some loan amortization fees that will not happen in the second half of the year. On the stranded cost front, yes, we do expect to see some improvement on that over the back half of the year and heading into 2026.

Robert Howard Coker

President, CEO & Director

Yes. Let me just add to that. On stranded costs, we are laser-focused on that. We have a sub-team that has been working literally since late last summer knowing that we were going to be turning over or selling the TFP business. So we have a road map that will benefit us as we enter into next year. But it will take time. Some of these costs are pretty sticky. But we absolutely have a road map to full elimination going forward.

The second half of this which is not for stranded costs is comments that I alluded to in my opening, that as a much simpler company where we're managing, in my words, basically two big businesses, a large can business, metal and paper and a large industrial integrated converting business. The amount of resources that it should take to manage those two businesses versus our prior portfolio dating back not too many years ago, we should be able to simplify what we're doing in terms of how we support that business. So rightsizing that is a second work stream that we'll be talking about in more detail later in this year, early next year.

Jerry A. Cheatham

VP of Global Finance for Industrial Paper Packaging

Yes. And John, just to be a little more helpful on the interest expense side, we're expecting that number to be around \$50 million-ish a quarter for the second half of the year.

John Robert Dunigan

Jefferies LLC, Research Division

Great. That's very helpful. And then just to move over to Eviosys for a second question here. Coming into the year, you guys had expected about 10% improvement on EBITDA for the full business. Obviously, a little weaker here in 2Q. It seems like synergy capture should be a bit better this year. Are you still expecting to be up year-over-year in that Eviosys business?

And then just kind of adding on to that, the projects that were called out, \$400 million of incremental units in one project and adding some of these other new projects that are going to be flowing through, it sounds more like a 2026 type of flow-through. How much does that actually add to volumes for the total business? I appreciate the details again.

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes, John, to answer your first question, yes, we expect EBITDA to be up year-over-year versus what the business experienced in 2024. So the answer to that question is yes. If you think about total volumes for the business, \$400 million, add another \$100 million to that of incremental business is significant. I'm not going to get into the exact numbers for that. But we produce -- we put these numbers out, what, 8 billion-ish cans a year. You can do the math.

I think what I am very optimistic about is not only those two wins but what I'm seeing in the business about other potential new business that we can bring in. I mean it's clear to me now, we are the service, quality, technical support leader in the market. We inherited a strong and deep leadership team. And you combine this with the strong business team we have in the U.S., I am convinced we will build a global leader in metal packaging. So none of that's changed. And being directly involved in the business, I have even more confidence at this point that we will do as we said we would do.

Operator

Your next question comes from the line of Anthony Pentinari from Citi.

Anthony James Pettinari

Citigroup Inc., Research Division

I'm wondering if you could talk a little bit more about any potential tariff impact, whether you're seeing them directly maybe in terms of steel or how your customers are positioning the food can or maybe indirectly in terms of consumer behavior, or just any impact that you're seeing directly or indirectly on any of your businesses.

Robert Howard Coker

President, CEO & Director

Yes. Thanks, Anthony. Of course, I don't think there's many people that like tariffs. We certainly don't. We're doing all we can to mitigate those and we've said this multiple times. But unfortunately they're happening, and we have efficient ways to push those through. I'd suggest to you that our customers are saying that this is certainly going to be an impact in retail. When you start looking at the numbers it doesn't sound material, but when you do it by volume it is material.

So more to learn in terms of how that impacts the consumer. Ultimately, our expectation is if there's a slowdown and it's not going to be just in our categories, it's going to be throughout retail, throughout grocery, we see if there's a slowdown that drives consumers to the center of the store. And that's been something historical within our paper can business and our closures business and probably see more upside on the downside, if you will, in that regard.

Jerry, you may want to talk about what we're seeing in terms of a financial perspective, just what is the magnitude of the numbers, et cetera.

Jerry A. Cheatham

VP of Global Finance for Industrial Paper Packaging

Yes. I would just say, we've been able to mitigate the impact thus far on our -- from an EPS standpoint and from a margin standpoint. And that's our expectation going forward that we would anticipate fully recovering that on the P&L side. We are seeing some impact of that on the balance sheet as we talked about earlier, just the impact of higher carrying levels of network capital balances.

Anthony James Pettinari

Citigroup Inc., Research Division

Got it, got it. That's helpful. And then maybe switching gears on the industrial business, maybe just two very quick questions. Pulp and Paper Week recognized I think most of URB price increase, and I'm wondering if you can remind us on kind of the flow-through or timing around that. And then you called out strength in reels, which I don't think you've necessarily called out before in the slides. I'm just wondering what's driving that and maybe how big of a business that is for you on the industrial side.

Robert Howard Coker

President, CEO & Director

Thanks, Anthony. On the URB pricing, we're going to start seeing benefit -- a healthy benefit in the third quarter growing into the fourth quarter. The timing of those increases, coupled with the open market

increase which was fairly successful in terms of getting through to the market is going to, both cases, be favorable, again building through the course of the end of the year and into next year.

Reels, to point out, it's not necessarily a very large business for us but it's just a highlight. A very profitable business. We're #1. And we don't talk about it a lot. It's been embedded in our industrial converting business for a long time. But because of the growth that we're seeing with fiber -- I'm not a technical guy, so fiber optics and this overall energy shortages that are throughout North America, we're seeing heavy demand.

We're out of capacity. And it's important for us to note to our stakeholders that we are putting significant capital to maintain our large market share in that business. The relationship to it within our industrial is we take the scrap and use it to make core plugs for our tube and core business. We sell into it with paper tubes for barrels. So it is definitely a great fit within our industrial business. And again, because of the capital and the improvements we see there, I just wanted to point that out.

Operator

Your next question comes from the line of Matt Roberts from Raymond James.

Matthew Burke Roberts

Raymond James & Associates, Inc., Research Division

Howard, you just discussed some of the timing of the URB price but -- and I know you also talked to the bridge earlier. But could you quantify maybe how the guidance bridge has changed versus last quarter? How much incremental from that URB price or lower OCC costs and then, additionally, maybe how FX has changed. And I think productivity stayed similar at \$65 million, unless I'm wrong there.

Robert Howard Coker

President, CEO & Director

Right. Great. I'll let Jerry handle that. And you're right on productivity.

Jerry A. Cheatham

VP of Global Finance for Industrial Paper Packaging

Yes, Matt, let me take a URB question first. As we've said previously, about every \$10 movement equates to about \$6 million annualized benefit to us from that URB movement. And we've modeled that to start happening in the third quarter. So we do expect to see that flow through of that \$40 a ton movement that happened would start kicking in. Yes, each \$10 represents about \$6 million of annualized benefit is what we've shared previously.

On the FX front, we're looking at that number going forward somewhere, call it -- on the euro to the U.S. dollar, somewhere between \$1.17 and \$1.18. And we ended the third quarter at \$1.13.

Matthew Burke Roberts

Raymond James & Associates, Inc., Research Division

Okay. Jerry, I appreciate that. Maybe switching gears. If I can ask ThermoSafe, sounds like volumes were positive in 2Q. Could you quantify what that was and what type of volumes you all are expecting in second half there? I believe there were some exciting growth opportunities in pharma products in that business.

And maybe versus 2024 Investor Day, and I know a lot has changed, but how had conversations -- potential suitors of that business, how do those change, whether that be buyer appetite or just general business performance for ThermoSafe overall?

And it might be a little early, but I'm not sure if you can carry out potential goalposts on what a pro forma leverage could be factoring in at sale there.

Robert Howard Coker

President, CEO & Director

Yes. You're correct. We've had some good wins and we're onboarding those right now. I really don't have the details exactly which products and markets. I believe it has to do again with the continuation of the expanse of GLP-1 and how they are now starting to shift. That has added nice growth and the profitability is going to continue to improve as we onboard that business.

As far as the process goes, as I said, we're getting ready to go. The expectation is that we intend to have something signed by the end of this year. And really, at this point, I'd be guessing and not fair to really talk about what type of yield we get off of that and how that impacts our overall leverage. Certainly in a positive way.

Operator

Your next question comes from the line of Mike Roxland from Truist Securities.

Michael Andrew Roxland

Truist Securities, Inc., Research Division

Congrats on the new role, Paul, and look forward to working with you.

Paul Joachimczyk

Chief Financial Officer

Thank you, Mike.

Michael Andrew Roxland

Truist Securities, Inc., Research Division

One quick question, just following up on John's question regarding SMP EMEA and the EBITDA generation you expect this year. I think when you announced the deal, I mean, I think, Roger, you mentioned that it's going to be up year-over-year. And I think a couple of quarters ago, you mentioned that the business itself would achieve EBITDA of \$430 million after \$390 million of EBITDA last year. So I know you mentioned it was -- you still expect it to be up, but do you expect it to achieve that \$430 million that you laid out a couple of quarters ago?

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes, Mike. As you know, we don't share business-specific profitability. What I will say is that certainly EBITDA will be up third quarter year-over-year as expected and as in the forecast. You have the bridge. You've got the profitability bridge that we put out with the announcement. And I will just repeat, we're pleased with where we are. Volume was softer than expected in the first half. We expect a nice recovery.

y in the second half, and confident that we'll get to the levels and return on that business that we expected. One half doesn't make a year and doesn't make -- it doesn't tell the story of an acquisition. So there's nothing at this point that I would say would lead us to believe that we're not going to get a good return on that acquisition as expected and deliver the value to the shareholders.

Michael Andrew Roxland

Truist Securities, Inc., Research Division

And then just one quick follow-up. Can you just help us understand the factors affecting your revised guidance? You're maintaining EBITDA but EPS is coming in at the lower end of your previous guidance. It seems like interest expense should be favorable in the second half. So how can you help walk us through how are you going to wind up at the lower end of your EPS guide while maintaining EBITDA and you have better interest expense?

Paul Joachimczyk

Chief Financial Officer

Yes, Mike, this is Paul. So I want to reiterate too, we're really confident in our guide around the revenue and EBITDA. So we have really strong sales in our performance in North America in consumer businesses

and industrial businesses that are there, but we did experience some softness and some weakness in international markets that were out there in the SMP EMEA. So that factored into our first half performance. You combine that with the tariff impacts as well, really led to macroeconomic uncertainty.

So if you think about from a revenue perspective and EBITDA perspective, really confident. Now EPS, let me shift gears to that, this was brought down primarily due to the interest expense that we experienced in the first half of the year. So Jerry talked about it in his script. This is about \$0.07 higher in the first half of the year. That was more than what we anticipated. That will pull through and it does bring down our overall EPS guide for the full year that's there. But we are going to have a benefit in the back half of the year.

As Howard and Roger both said, our Q3 is our strongest quarter that's out there. So we really are confident once we get back on that EBITDA and the revenue perspective. But EPS is really impacted by the interest expense that's out there. And then operating cash flows, we did lower that guide down as well to the low end of that range mainly due to the usage of the net working capital, primarily as a result of the material inflation that Jerry talked about in his results.

Operator

Your next question comes from the line of Ghansham Panjabi from Baird.

Ghansham Panjabi

Robert W. Baird & Co. Incorporated, Research Division

Paul, my congrats to you as well. I look forward to working with you. I guess if you look at the consumer segment, kind of zooming out on a legacy basis, so setting aside Eviosys for a minute, volumes are off to best start in several years. And just curious as to your thoughts as it relates to the sustainability of that in context of big food obviously reporting very well volumes, the consumer being impacted by affordability and maybe some GLP-1, et cetera. So how are you thinking about the sustainability of that? Obviously, this year has been led by the metal food can business, but just curious on your thoughts on that.

Robert Howard Coker

President, CEO & Director

Yes. So Ghansham, thanks. You're right, year-to-date, Q1 was strong, Q2 was strong, and we see that maintaining itself through the end of the year and frankly, flowing into the next year. And you're right again as it relates to the strength that we've seen in our SMP U.S. business. We've talked over and over again in terms of how much investment that we've got going on right now on the remaining part effectively of our consumer side, which is our paper can business.

We've got a new plant starting up in Mexico right now that's just, in our terms, starting to pull paper, just starting up, similarly in Thailand. We have assets that are going in place literally around the world, Brazil, the United States. It's all incremental and it's going to take time as in any capital deployment to get these up and running.

On the foundation of the business, again, bullish. You're seeing new products in the marketplace today. I won't really talk to -- I don't want to talk to customers, but the expectation is -- and we're not forecasting major or big double-digit type growth rate. It's going to be incremental and it's going to take us time as these assets come onboard and as these products continue to launch.

From a GLP perspective, I don't think we've seen anything there. I can't say that definitively. I think most of it, if there's any type of softness is the balance between new wins, growth and just some of the legacy products dating back for decades that have been in slow decline that we don't see that changing. So what we do see is that the growth will overtake that in the growing quarters and years.

Ghansham Panjabi

Robert W. Baird & Co. Incorporated, Research Division

Got it. And then as it relates to Eviosys, I mean, obviously the first half, it's played out slightly differently from a volume perspective. You can't control where the fish swim, if you will, and the fish catch, et cetera.

But can you just give us the specifics of where you are on the synergies relative to plan? What's been done so far? And just having another quarter of the business under your belt, how are you thinking about the \$100 million of synergies and maybe some upside to that relative to your initial forecast for 2026?

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes, Ghansham, this is Rodger. Feel really good about it. I think we've mentioned that a couple of times in our opening comments. We've raised the run rate for 2025 to that \$40 million to \$50 million level. And just a reminder, we closed the deal late in December. So we were not able to negotiate a lot of raw material synergies that we were looking for in 2025, and those will hit in 2026. So I would say we're ahead of the game. What's encouraging about that, a lot of those are non-raw material synergies that we're seeing in that \$40 million to \$50 million.

So at this point, we think there's upside to the \$100 million. We're starting, so we have those discussions now about 2026 from a raw material standpoint. So at this point, I see no reason why we would not hit and/or exceed that \$100 million level. The team is executing extremely well, as I said before, are really focused and looking at a number of other non-raw material opportunities. But those have exceeded our expectations to this point.

Operator

Your next question comes from the line of Mark Weintraub from Seaport Research Partners.

Mark Adam Weintraub

Seaport Research Partners

First of all, thanks, by the way, for reinstating the sales and adjusted EBITDA bridges so at the end. That was very helpful. On Slide 17, the full year financial outlook, on the left side you've got upside, downside risk and then you have the fixed variables. But it seems that those are sort of the drivers of what created the adjustment in your kind of guidance. So I'm just trying to understand, are those to be seen as the drivers that have created change in what you're now telling us? Or are those things that you think could impact the numbers that you are -- the updated numbers? A little unclear to me on that.

Paul Joachimczyk

Chief Financial Officer

Yes. So Mark, great questions. So go back into -- and I'll start kind of at the bottom of the operating cash flow. So if we look at our usage of net working capital, that is a true update to the guidance that's out there. We did have more usage of our net working capital related to material price inflations that are out there. So that is a true change for us. And if you think about the interest expense that is out there too, that is a driver of why we lowered the EPS range that's down there.

So those are the drivers that are there. Now if we go into it and we look at the upside of that too we'll say is we do have some things around our fixed cost controls. We will control our controllables in softening markets and things like that as demand. So those are things that we can do to help enhance the outlook that's out there. But right now, to those largest two items around interest expense and net working capital is what did bring the guide down on EPS and the net working capital or operating cash flows.

Mark Adam Weintraub

Seaport Research Partners

Got you. So then the other thing is obviously we've had a big move in the dollar. And so two questions on that. Just so what's the sensitivity? So for every \$0.01 move in the dollar-euro exchange rate, I mean we know EBITDA at the former Eviosys order of magnitude, \$400 million. So you might say just on conversion, that's \$4 million. And so we've had like a pretty significant move there.

And then are there offsets? Because I do know you have some financial instruments, et cetera, which maybe create offsets. So two questions. One, how should we think about the sensitivity to dollar-euro moves running through your financial statements? And two, what do you have embedded?

Jerry A. Cheatham*VP of Global Finance for Industrial Paper Packaging*

Yes. Mark, this is Jerry. On the sensitivity, on the euro to the U.S. dollar, every penny equates to about \$0.025 of movement on EPS on an annualized basis, and as I mentioned earlier, what we modeled going forward for the second half of the year is that euro between \$1.17 and \$1.18.

Mark Adam Weintraub*Seaport Research Partners*

Okay. Because I believe at the start of the year, you were thinking like \$1.05. And now we have -- so that would suggest that we got like \$0.10 or \$0.15 of averaging it out, of benefit from the exchange rate. And so that's already included in your updated guide. Is that the correct way to read that?

Jerry A. Cheatham*VP of Global Finance for Industrial Paper Packaging*

Yes. That's embedded in our guide. And yes, we did begin the year with that euro at \$1.055, call it, \$1.06.

Operator

Your next question comes from the line of Gabe Hajde from Wells Fargo.

Gabriel Shane Hajde*Wells Fargo Securities, LLC, Research Division*

Paul, I look forward to working with you. There's been a lot of moving parts in the organization. I don't think anyone would debate that. And I think shareholders today are worried about what's going to happen maybe on a go-forward basis. And I'm just curious if you're willing to comment at all on some of the big moving parts in the '26. I mean, you alluded to some business wins in SMP EMEA, obviously the North American metal food and aerosol business is performing well.

So from our vantage point, a couple of things that are obvious. You talk about run rate synergies of \$40 million to \$50 million and escalating to close to \$100 million by the end of next year, so call it, incremental \$40 million to \$50 million next year. If I flow through the URB hike, call it, \$10 million positive. You're working really hard on productivity. You're doing \$65 million this year. Maybe there's \$50 million to \$60 million of productivity. Yes, I know there's the inflation treadmill. And maybe we can get a little bit of volume growth in the composite container business once that big customer transitions.

So I'm just curious if there's other things that we should be thinking about. And again, you guys can't control FX. You can't control the macro. But maybe we can be out of the industrial winter as well. So just anything you can help us in EBITDA terms bridge '25 to '26.

Robert Howard Coker*President, CEO & Director*

Gabe, I think you did a great job of kind of covering the moving pieces going forward into the second half of the year. If you really talk about -- yes, I mean, there has been a lot of activity over the last not just quarters but years and we're at the point of now ending and normalizing the portfolio with a focus on a lot of things, but one of which is leverage. And I think we've made really nice movement here in the early part of this year. And I've talked about ThermoSafe, that too is going to be another benefit on a go-forward basis.

But in terms of just from an EBITDA perspective and the puts and takes for the quarter, I can't tell you how bullish I am. If you just look at the first half, who would have thought that Sonoco is going to be running at north of the 17% EBITDA margin? The metrics and the execution across the core of the business is exceptional. And as we've noted, there's been spot issues in terms of volume, ups and downs. But our team continues to deliver. I'm even more bullish, particularly as we get into the second half of this year, with the traditional seasonal upticks that we see, and now we're going to be able to leverage that.

I think Jerry and Paul have done a nice job of talking about below the operating profit line in terms of interest and the improvements that we expect to see. We noted the FX implications. But I guess I'm here to just say that I'm proud of the team and all of what they've done and continue to do, and we're sitting in a better position than this company ever has been in a very difficult operating environment and with a lot of change. And I'm not going to repeat myself, but the culture of the company is alive and well. And even though we've been through this much change, but the future looks extremely promising.

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes. And Gabe, I would just add cost, right? I mean we've talked about getting the stranded cost out. We're on that. But with the new three global segments, the simplification of the business, a lot of efficiency opportunities around procedures, how we get things done on a day-to-day basis, where we operate some of those support services. A real focus on cost that should also impact 2026.

Gabriel Shane Hajde

Wells Fargo Securities, LLC, Research Division

Right. Well, I think you called out \$20 million of annualized savings there. Okay. And then maybe one last one as it relates to taxes. Obviously, you talked about a net number and you already redeployed those proceeds to pay down debt from TFP. But any other tax items that we should be mindful of particularly given the passage of tax legislation here, if anything changes for you on the cash tax side?

Jerry A. Cheatham

VP of Global Finance for Industrial Paper Packaging

Gabe, from a tax standpoint, we expect the full year rate to really come in at approximately 25% that we modeled in at the start of the year. And the tax legislation, the impact of the Beautiful Bill, we don't see that having a significant impact on us in 2025.

Operator

Your final question comes from the line of Anojja Shah from UBS.

Anojja Aditi Shah

UBS Investment Bank, Research Division

Just a quick clarification. I don't know if you called it, but you do have a lot of a lot of CapEx projects going on. Did you give some sense of how much your CapEx is expected to step up in 2026? Did I miss that?

Robert Howard Coker

President, CEO & Director

A little early to talk about that. I don't see it stepping up materially. If you go back a number of years ago, we were running in the \$170 million to \$190 million and we ended up around \$360 million last year, and that's our forecast for this year. The beautiful thing is we've got a lot of growth, customer-assigned capital. We'll see how that looks going into '26. Any major win could mean we may need to pop up and support some serious growth. So we'll just see how that plays out. So -- but this year is right on top of last year, your modeling. I would go there. But really too soon to say.

Operator

That concludes our question-and-answer session. I will now turn the call back over to Roger Schrum for closing remarks.

Roger P. Schrum

Interim Head of Investor Relations

I want to thank everybody for your participation today. And as always, if you have any further questions, don't hesitate to give us a call. Thank you.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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