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Market Intelligence

Sonoco Products Company

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Earnings Call

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Presentation

Operator

Thank you for standing by, and welcome to the Sonoco Third Quarter 2025 Earnings Conference Call. [Operator Instructions] I'd now like to turn the call over to Roger Schrum, Head of Investor Relations and Communications. You may begin.

Roger P. Schrum

Interim Head of Investor Relations

Thank you, Jeannie, and good morning, everyone. Yesterday evening, we issued a news release and posted an investor presentation that reviews Sonoco's third 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; and Paul Joachimczyk, our Chief Financial Officer. For today's call, we'll have a prepared remarks followed by your questions. If you'll turn to Slide 4 in our presentation, I will now turn it over to Howard.

Robert Howard Coker

President, CEO & Director

Thank you, Roger, and good morning, everyone. Let me start by saying I am incredibly proud of our team's strong operating performance in the third quarter as we achieved record top line and bottom line performance, along with margin expansion despite challenging market conditions, which affected both consumer and industrial demand, particularly in the EMEA region.

As Slide 5 shows, net sales grew 57% and adjusted EBITDA was 37% up, while adjusted EBITDA margin achieved a record 18.1% due primarily to improving margins from our Industrial Paper Packaging business. Total adjusted earnings grew 29% in spite of higher-than-expected interest expense. Our Consumer Packaging sales and operating profit grew 117% and adjusted EBITDA increased 112%. Most of the improvements came from the addition of Metal Packaging EMEA and strong results from our Metal Packaging U.S. business, where we saw food can volumes up 5%.

Our Industrial Packaging segment also had an exceptional quarter with operating profits up by 28% and adjusted EBITDA up by 21%. Both operating profit and adjusted EBITDA margins grew significantly during the quarter and registered an eighth consecutive quarter of margin improvement in the Industrial segment. Our industrial team continues to successfully drive our value-based pricing model while achieving solid productivity savings. Paul will go through all the numbers and business drivers for the quarter in a few minutes.

As shown on Slide 6, we successfully entered into an agreement on September 7 to sell our ThermoSafe temperature-assured packaging business to Arsenal Capital Partners for a total purchase price of up to \$725 million. We expect the transaction to close during the quarter, subject to regulatory review. The

purchase price includes \$650 million in cash at closing, and additional earn-out opportunity of up to \$75 million based on the business' 2025 overall performance.

The completion of the sale of ThermoSafe will substantially complete Sonoco's portfolio transformation from a large portfolio of diversified businesses into a stronger, more simplified structure with 2 core global business segments.

Consumer Packaging, which consists of our global Metal and Paper Can businesses and industrial packaging, where we have global leadership in uncoated recycled paperboard and converted products. Pro forma for the transaction, the expected net proceeds from the divestiture, excluding any additional considerations are projected to reduce our net leverage ratio to approximately 3.4x.

I'm now going to turn the call over to Rodger Fuller to give us an update on activities and where we are at S&P EMEA.

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes. Thank you, Howard. Good morning, everyone. If you turn to Slide 8, I'll provide a brief review of Metal Packaging EMEA's third quarter performance and outlook for the rest of the year and actions we're taking to improve performance in 2026 and beyond. Third quarter results modestly improved over the same quarter last year with adjusted EBITDA up approximately 9% and EBITDA margins improving to approximately 18%. Food can units increased 3.5% year-over-year, but unfortunately, business activity was below our expectations due to macroeconomic headwinds and weaker-than-anticipated seafood availability.

With the vegetable harvest season substantially behind us, we believe the fourth quarter will likely be weaker than we had anticipated based on our customers' projected demand throughout the EMEA region. In response to these challenges, we're taking actions now to improve our competitive position and drive cost savings to accelerate our performance in 2026.

As I mentioned on our last call, our team is making tremendous progress in achieving our targeted \$100 million in annual run rate synergies by the end of 2026, with savings benefiting our entire consumer metal and paper can portfolio. Our team expects to further drive procurement synergies in 2026 after they were delayed in 2025 due to the late closing of the acquisition. In addition, we are rightsizing our manufacturing footprint to match our customers' demand profile and better leverage our operating costs.

We're also building out our commercial team and have active growth projects that are focused on increasing our exposure to more nonseasonal products. As an example, we're making capital investments to gain new pet food and seafood business in Eastern Europe, which will improve our mix with our large vegetable can customers.

In closing, while I'm not satisfied with our recent performance. I'm encouraged by the receptiveness Sonoco has received from our customers and our team's focus on taking the necessary actions to drive improved performance going into 2026.

So I'll now turn it over to Paul for the quarterly financial review.

Paul Joachimczyk

Chief Financial Officer

Thank you, Rodger. I am pleased to present the third quarter financial results, starting on Slide 10 of the presentation. Please note that all results are on an adjusted basis and all growth metrics are 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.

Adjusted EPS was \$1.92, representing a 29% year-over-year increase. This improvement was primarily driven by favorable price/cost performance of \$43.5 million, the EMEA Metal Packaging acquisition and continued strong productivity of \$11 million, primarily from our converting businesses. These benefits

were partially offset by unfavorable volume mix, an increase in the effective tax rate by approximately 180 basis points and slightly higher legacy interest expense.

Third quarter net sales for continued operations increased 57% to \$2.1 billion. This change was driven by the acquisition of Metal Packaging EMEA, strong pricing disciplines across all segments and the favorable impact of FX. Adjusted EBITDA of \$386 million was up by an outstanding 37% and adjusted EBITDA margin improved by 130 basis points to 18.1%. This was driven by strong price cost discipline, continued productivity and the net impact of acquisitions and divestitures. These benefits were partially offset by volume softness in the Consumer and Industrial segments and an unfavorable sales mix in our all other businesses.

Slide 11 presents information on our operating cash flows, which was a source of cash of \$292 million during the quarter, up more than 80% over the prior year. Gross capital investments for the quarter were \$65 million, and our annual capital spending is tracking below our \$360 million target for the year. As we enter our fourth quarter, we expect similar operating cash flow performance as last year as the seasonal build of net working capital reverses.

Slide 12 has our Consumer segment results on a continuing operations basis. Consumer sales were up 117% due to the Metal Packaging EMEA acquisition, price increases implemented to offset the effects of inflation and tariffs and the favorable impact of foreign currencies. This was offset by unfavorable volume mix. Our domestic Metal Packaging business presented higher sales versus the prior year due to higher food can units and price, which was offset by unfavorable mix.

Sales for our Global Rigid Paper Can business was relatively flat as favorable price was offset by mix and lower volumes. Adjusted EBITDA from continuing operations grew an extraordinarily 112% year-over-year due to the acquisition, favorable price disciplines, continued productivity gains and the favorable impact of foreign currency exchange rates. This was offset by weaker volume year-over-year.

Now let's turn to our Industrial segment slide on Slide 13. Sales were flat year-over-year at \$585 million, with the recovery of price offset by volume softness and the exit from our Chinese paper operations. Adjusted EBITDA margins expanded 360 basis points year-over-year in the third quarter and increased by \$21 million to \$123 million, representing a 21% increase.

Adjusted EBITDA was positively impacted by price, improved productivity and fixed cost savings resulting from footprint rationalizations in North America and headcount reductions in Europe and Asia.

Slide 14 has the results for the all other businesses. All other sales were \$108 million and adjusted EBITDA was \$21 million. Sales were higher versus prior year due to higher volumes in ThermoSafe. Adjusted EBITDA improved 2% to \$21 million as favorable productivity and fixed cost savings more than offset the negative impact of unfavorable mix and price cost.

Transitioning to our outlook for the remainder of the year, as shown on Slide 15. We are tightening our guidance with net sales in the range of \$7.8 billion to \$7.9 billion. The European market continues to soften, and we are seeing pressures in the North American market with slightly lower demand. From an adjusted EBITDA perspective, we are narrowing our range to \$1.3 billion to \$1.35 billion, with strength in the performance of our North American businesses, offset by the softness in the European and Asian markets.

We are reducing our adjusted EPS range of \$5.65 to \$5.75. This adjustment is primarily driven by subdued market conditions outside of the United States and the deleveraging process occurring across those facilities as sales volumes declined. Reflecting on the third quarter, July commenced successfully surpassing our expectations. However, August and September experienced declines, mirroring the market's weakening trend.

This downward trajectory is continuing into our fourth quarter, which serves as the primary rationale for the lowered outlook. An additional item of note is our guidance assumes a full quarter of ThermoSafe performance. Given the projected pressures in our sales and operating profit, we are adjusting our operating cash flows range to \$700 million to \$750 million.

Over the next 90 days, we'll be closing out 2025 and getting ready for our Investor Day, which is scheduled in New York on February 17, 2026. We are very excited about the strength, stability and simplification of the new Sonoco and the competitive advantage it creates in the marketplace. We intend to lay out a road map over the next 3 years to show how we're going to grow our businesses, strengthen our balance sheet, and continue to drive margin expansion.

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

Robert Howard Coker
President, CEO & Director

Great. Thanks, Paul. As we look ahead at the remainder of the year, our top priorities are to continue building momentum for growth and improving our competitive position by further reducing our cost structure. As the graphic shows on Slide 16, we believe our consumer and industrial businesses have solid funnels in place with several new products and market launches planned in 2026 and beyond. We believe we can continue to gain additional wins with both aerosol and food can customers in North America as we have successfully done through this year with can units up approximately 9%.

As Rodger mentioned, Metal Packaging EMEA continues to achieve market wins, which will provide growth in '26 and beyond. Also, we believe our Rigid Paper Containers business is on the cusp of reigniting growth in global stacked chips, and we continue to launch new all paper cans and paper bottom cans for customers looking to substitute with less sustainable substrates.

Finally, our Industrial Packaging segment is purposely driving share gains while focusing on new product categories such as wire and cable reels, where we experienced double-digit growth in the third quarter as well as new markets and applications for URB paper.

If you turn to Slide 17, I'll make some final comments with the planned sale of ThermoSafe, we will be entering the next stage of our transformation journey, which is focused on optimizing our operating footprint and reducing future support function costs to align them with the needs of our now simpler portfolio. Our restructurings are never easy. They are necessary if we are to realize the full value of these portfolio changes.

As an example, we recently closed a 25,000 ton per year URB machine in Mexico City, which eliminates an older higher cost machine and allows us to better balance our North American mill network. As Rodger mentioned, we expect to continue to drive actions to meet our synergy targets and expect to further optimize our EMEA footprint to better serve our customers and to react to changing market conditions.

With a simplified operating model also comes additional opportunities to optimize support functions. We've actioned approximately \$25 million in annual savings from stranded costs left from divested businesses, and we're implementing additional actions that will enable our businesses to fully leverage our market capabilities and generate strong cash flow. We've added a save-the-date reminder of our Investor Day in New York on Slide 18 of our presentation.

I look forward to sharing our growth plans and the significant savings and value capture we expect to unlock with our simplified focused operating vision.
So with that, operator, we will now take any questions.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Gabe Hajde with Wells Fargo.

Gabrial Shane Hajde

Wells Fargo Securities, LLC, Research Division

Howard, Rodger and Paul, thanks for all the detail. I wanted to dig into, I guess, the European Food Can business. It feels like there's a couple of mixed signals here. And I'm thinking about you guys talking to win some share, I guess, in seafood. I appreciate you talked about some powdered formula wins. But just maybe more near term, you're talking about Q4 maybe getting a little bit sequentially weaker. I'm curious if that's associated with a shortened vegetable pack or if there's something unique going on there?

And then I thought kind of in the second quarter, you talked about Northern Africa, some disappointing seafood trends. I'm just curious, your increasing exposure there. And then last part on the footprint rationalization or consolidation, what's going on there? It felt like that business was pretty well optimized when you acquired it? If you could just elaborate there.

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

It's Rodger. I'll hit all 3 of those. First one on volume. First of all, when you look at the third quarter volumes, we had guided to mid-single-digit can units up quarter-over-quarter. We came in at 3.5%. The seasonal business, fruits and vegetables for the third quarter came in almost exactly as expected. The shortfall was in Africa, and it was, again, the starting issue in Morocco, plus we have a plant in Ghana, which supplies tuna and other products that primarily supplies one customer and that customer's projections were too high, and that was down. So if you strip out Africa for the third quarter, we would have been in that -- well into that mid-single-digit range.

So as we look at the fourth quarter, what we're seeing and what we're hearing from our customers -- and the seasonal business is ramping down. So we'll have some of the seasonal business continue in October, but it is ramping down. What we're hearing from our customers and why we take the guide down for the fourth quarter for the EMEA volume is they're going to be very sensitive to any inventory build in the fourth quarter due to what they see as macroeconomic conditions.

Technically, this could help us in the first quarter. But again, they're watching their inventories very closely, and we're watching the Africa business very closely to see how that sardine business improves. We've not seen it this year. We're not expecting it and we're not guiding that for the fourth quarter.

When you talk about the footprint issues, the #1 issue is for me right now is Africa because if you look across the board and sardines, again, farming Morocco, other fish products in Ghana and others, we do have to address our footprint there and our cost base there, and we're actively doing that. We've also started some negotiations in France to do some continued footprint optimization around our metal in supply across our platform, which was expected, and we intended to do that as we came into the acquisition.

So that was as expected. So yes, it's been a little confusing. The starting business down hundreds of millions of units over a few year period is a fact. It's not really an excuse. It's just a fact. And it's something that we're dealing with, and we've got to really get after the Africa footprint. So I hope that covers some of the confusion, I think, Howard, do you want to follow up?

Robert Howard Coker

President, CEO & Director

Yes, sure. Gabe, thanks for your question. What I would say is, first off, we are really, really pleased with this acquisition, the people, the technology, the market position all the things that you point out,

optimization. As Rodger just said, we see more opportunity there. And yes, we are indeed disappointed in how we're going to finish up the year and what the fourth quarter is rolling to. And again, Rodger talked to the main points there. But we did this to create a global platform. Consumer for the first quarter ever is one product, basically, it's cans. It's cans made from steel, aluminum and paper. That's it.

And so we have clear line of sight as we've talked about in terms of the synergies associated with the acquisition. But what really excites us is what we can do from one consumer perspective. We are very early in the process, but some of the structural, commercial and other opportunities that are materializing across our 3 formats, metal, our legacy rigid paper and steel aluminum are creating some really, really exciting opportunities that we're working now.

And so as we talked about February when we go into February, we'll be able to talk more, but different ways to manage, run, go-to-market than we ever even thought about as we started on this journey that are incremental that, again, we'll talk about in more detail in February.

Gabriel Shane Hajde

Wells Fargo Securities, LLC, Research Division

Thank you for that Howard. Unfortunately, we tend to be greedy over here, I guess. If we think about big moving parts into 2026, just to make sure we're calibrated properly, and we pick the midpoint \$1,325 million. Just to remind us, that does include \$50 million TSP contribution in the first quarter. And then assuming that the ThermoSafe transaction closes, that would be another \$50 million to \$55 million adjustment, again, starting with that \$1,325 million.

You've talked about actioning about \$25 million of stranded cost savings, SG&A, et cetera. I'm not assuming all of that hits in '26, but a decent portion of it. And then we'll make our own assumptions about volume, FX and price cost. Is there anything else that we should be thinking about? I mean, are you -- would you say in the fourth quarter, you talked about Rodger throttling maybe production in the food can business to keep inventories in check. Do we have an estimate of order of magnitude what that might be hitting Q4 earnings?

Paul Joachimczyk

Chief Financial Officer

Yes. Gabe, this is Paul. And to answer your question there, too, you're thinking about the stranded costs, you're thinking about TFP and ThermoSafe, exactly correct. I'd say the one element that you probably have to factor into your model for next year is the reduced interest expense that we're going to be using the proceeds from the ThermoSafe sale and transaction that Howard talked about earlier in the call.

All of those proceeds will go directly to debt reduction. So I'd say that would be the largest element to change on there, too. And if you think about our Q4 performance that's out there, you can see our operating cash flow guide did come down. That does create a little bit of a strain on the ability to pay down our debt. So that's why we are experiencing a little bit of higher interest rate expense that's out there, too.

So as you're modeling in your Q4 projections that are out there, and this wasn't a direct question, but interest expense should be in the range of around \$50 million for the quarter. And all the other performance will be a little bit muted just due to the overall consumer demand that we're seeing really in the EMEA regions that are out there today.

Operator

Your next question comes from the line of George Staphos with Bank of America.

George Leon Staphos

BofA Securities, Research Division

Congratulations on the progress. I guess my first question, I know we'll get more of this in February, but is it possible at this juncture to quantify some of the cost or revenue synergies you expect to get from

having a Metal and Paper Can business together? And can you give us a couple of, for instances, in terms of what you already think you might be able to pick up commercially?

Robert Howard Coker
President, CEO & Director

Yes. George, you want to do your follow-ups now?

George Leon Staphos
BofA Securities, Research Division

No, let's -- we'll start first with that question if it possible.

Robert Howard Coker
President, CEO & Director

Yes. I know, and I hate it that you started out correctly. It's too early for us. I truly mean it. It's been in the last, I don't know, a month or so that we or 2 that we've really got into this and things have started to settle down from an integration perspective when we start stepping back and we're saying, wow, we've got plants on top of plants around the world. How are we managing geographically, how are we managing substrates that are very, very similar.

So it's -- we got a number in mind, but we got to work that a little more. But we're actioning now to be in a position to start generating the savings side of this thing as early as the first of next year. But...

George Leon Staphos
BofA Securities, Research Division

What do you think the long-term EBIT growth is for the consumer business as it's currently constructed? And look, the reason behind the question, we recognize all the M&A, heavy lifting that's been going on at the company in the last 1.5 years, 2 years. Having said that, this quarter, you're very happy with the platform. You love the structure, et cetera, but sardines don't swim, the pack is late and the volumes wind up being really not particularly good and nor is the earnings, and you spend a lot of capital to build out this platform.

And so that's kind of the reason behind the question. So if you had a view on what you think the long-term EBIT growth is for the combined consumer business, that's what's driving the question. If you had a view at this juncture, if not, we can move to the next question.

Robert Howard Coker
President, CEO & Director

Yes. We have a positive view. I can't sit here and give you a percentage point at this time, but we did this for that very reason to grow the profitability of the company. And you can talk about individual fair enough in terms of -- I'm a hell of a fisherman, but I can't guarantee you that I'm going to catch fish every time I go. But that's the thing. You worry about your controllables, you're not your noncontrollables. And that's what Rodger talked about getting rightsized structuring. And when I talk about -- and you asked about commercial opportunities across substrate, it's amazing once we started putting pen to paper to say how many people are buying one or the other from us that we could materially take advantage of.

So all our conversations right now, all of our actions that we're taking right now are to do exactly what you're saying, the expectation should be that we should be growing our profitability on into the long term. And we have some very chunky growth opportunities in front of us as we sit here today. And that's without consideration of what if we go to market in a different way. What if we structure our plants in a different way that gives us the positive viewpoint that we have. And I'm really sorry that I can say, hey, this is -- it's going to be 8.75% going forward. We'll talk about this in February.

George Leon Staphos
BofA Securities, Research Division

Okay. Understand, Howard. I guess next question I had on cans again in the U.S. I want to say little on the 2Q sort of commentary kind of into the third quarter, the commentary was that maybe it'd be a late pack, but you'd see an uptick in the fourth quarter. What in particular is driving the weaker volume? And then as regards to third quarter, food cans being up 5%, but I think overall, the performance in metal for the third quarter in the U.S. was down low single. That's just mix, right? That's pet food versus other end markets or something else behind that?

Robert Howard Coker
President, CEO & Director

Yes. That's just mix. And what I'd say is it was a good pack season. It has carried over into -- in North America into October. So we're actually looking at a pretty reasonable fourth quarter on the food can side of North America. I'd be extremely remiss if I didn't talk about the paper can side of things globally. We've got an issue going on that I can -- what's the appropriate word, I would say, temporary situation with a very major customer that actually is highly material to us, particularly on an international perspective, but certainly touches North America as well.

And that's been an extremely disappointing, but exciting at the same time, disappointing in terms of the performance as this particular transaction nears closure, but exciting in terms of where this business can go into the future. So we're seeing inventory drawdown, what we're seeing in the fourth quarter. So that's part of this forecast that we've got in front of you. And again, I look at that as a temporary problem.

George Leon Staphos
BofA Securities, Research Division

Last one quick one. OCC prices are really low right now. That's probably helping you a bit on margin. Hopefully, OCC heads up in 2026 for macro reasons and the like. Any way you will try to avoid any margin pressure ahead of time? Or is it -- will it be really the same sort of mechanisms you've had in the past in terms of pricing and the like, your pass-through mechanisms and just you'll manage it on the way up just like you always have.

Robert Howard Coker
President, CEO & Director

Yes. Thanks, George. We're going to do what we've always done, but I did just highlight one example in my prepared remarks about preemptively making the right moves in terms of the balance of supply in North America. So if you listen, we've taken 25,000 tons out, and it's a really smart thing to do just in and of itself, replacing coming off of a 25,000-ton machine. And here, we're sitting in South Carolina with a 180,000-ton machine with a different cost profile.

So we'll do what we have to do, what we've done traditionally as it relates to price cost management, but we're going to control those things that we can control as well and make decisions like I just announced.

Operator

Your next question comes from the line of John Dunigan with Jefferies.

John Robert Dunigan
Jefferies LLC, Research Division

I really appreciate all the details here. If I could start with the URB mill in Mexico City that you just touched upon. What does that do to your operating rates for the business? And what I'm thinking about is, is cost going to end up going up because you have to still supply those same customers. So freight may be more of a headwind next year? And then if you could touch upon a much larger price/cost spread in both Industrial Packaging, which obviously you had the price increases go through for URB.

OCC continues to slide a bit. But overall, still quite a bit ahead of where we're expecting. Same with the Consumer Packaging business. I know there was pricing to help cover some of the tariffs, but price/cost spread again seemed outside to our expectations. So maybe you can touch upon price/cost for both those segments going into 4Q and 2026 and how we should be thinking about that?

Robert Howard Coker*President, CEO & Director*

Sure, John. Let me start with your opening around the mill network. First off, we're running in the low 90s. And we've been proactive and aggressive all along the way in terms of making sure we were -- we had a pretty balanced portfolio here. As it relates to Mexico, that's a math decision as well as the capacity say, control, but a capacity-oriented decision that it just makes better sense. I mean, the math says that 25,000 tons coming off of the mill across the border versus what we can do from a leverage perspective with much larger facilities here.

So strictly a math equation. Price/cost going forward, we'll see what happens. Very similar question to what George asked. I wouldn't surprise us to see OCC, hopefully, as noted that markets are going to continue, and that's what happens.

OCC starts going up, markets tighten up. That's a sign of market start tightening up and that price/cost -- there's 2 forms of that. One is contractual related to the indices and others are just good management of our cost side of the business as well. So are we going to -- no. I mean we've got -- it's a big quarter for us in industrial and we expect that it's probably going to slip through the course of next year, but be at levels that very consistent with the last 3 or 4 years, which is remarkably higher than the old Sonoco.

Rodger D. Fuller*COO & Interim CEO of Sonoco Metal Packaging EMEA*

Yes. John, add one real question on the URB mill closure there, too. This is really to get us to be maintaining an operation efficiencies in the 90s. So this is balancing the overall portfolio. As we started to see, we had redundant capacity across the network and structure, and we wanted to make sure we maintain that because at that efficiency rate, we had to balance out logistics costs and everything else like that to make sure that the net transaction actually was a benefit for the overall company.

But our goal is to maintain all of those facilities in the 90s, and we started to see the trend of starting to be a little bit overcapacity in the market space. So just to give you a little bit more context on that. And the total cost of the transaction after is down, just to be clear on that.

John Robert Dunigan*Jefferies LLC, Research Division*

Okay. That's helpful. And then just a couple of more questions on the bridge in 2026 that Gabe had touched upon earlier. I'm sure we'll get more insights in February. But just thoughts around with the moving pieces in S&P EMEA, what are you kind of expecting out of that \$100 million or so synergy run rate by the end of next year? How should that be flowing through? And in terms of -- apologies, I'll leave it there.

Paul Joachimczyk*Chief Financial Officer*

Yes. And John, Rodger mentioned too, we're on track to getting the \$100 million of synergies, and I want to stress by the end of 2026, that would be the full run rate. Year-to-date, we're kind of expecting to have a run rate of \$40 million by the end of '25. And the goal would be is to achieve that full run rate of \$100 million.

Now you could say that's a \$60 million more run rate you have to go get. And then timing of this, as you can imagine, in Europe, it does take longer to take those costs out and those stranded costs and other synergies that are out there. So you can split the difference and say roughly \$30 million will be actually realized in 2026 with the remainder coming into '27 and beyond.

Operator

Your next question comes from the line of Anthony Pettinari with Citi.

Anthony James Pettinari

Citigroup Inc., Research Division

You talked about potential reacceleration in RPC, which I guess was down low single digits in 3Q and is expected to be down that much in 4Q. In terms of the reacceleration, is that just a large customer getting to kind of a deal completion? Or are there new projects that are in the pipeline? Or are you seeing anything in terms of inventory? So I'm just wondering if you could give any more detail in terms of what drives that inflection? And is that something maybe we see in the first quarter, the first half of '26? Or any further detail there?

Robert Howard Coker
President, CEO & Director

Yes. Anthony, the easy answer to that is all of the above. What I would tell you is that the receleration -- if that's a word, receleration of our Snack business is -- that's a foot on the gas pedal type thing that really is impactful immediately if and when it happens, expectation it will happen, and that's a global phenomenon for us. We're continuing to win as it relates to our paper solutions in Europe. We're adding those capabilities to the U.S.

Those are more incremental. They build as big as the business is. You win 50 million units, doesn't really -- it's rounding there, but over time, and what we're seeing is a trajectory in that direction that will continue to build movement throughout. So I suggest to you that we're really bullish about the paper can side of the business and then you start adding that to the synergies that are associated with the metal side. We're looking forward to next year and on into the next coming years with what these businesses can do.

Anthony James Pettinari
Citigroup Inc., Research Division

Okay. That's helpful. And then just switching gears to capital allocation. You talked about getting leverage down to 3.4x by year-end, debt pay down next year. I'm wondering if you could talk a little bit more about the capacity for share repurchases in terms of when you'd be able to really buy back at scale in terms of timing or leverage threshold? Or is there an opportunity to maybe pull that forward given the valuation of the stock? And then I guess, related question, the \$100 million run rate synergies that you're going to get in '26, is there a cash cost associated with that, that we should think about when we think about that '26 cash bridge?

Paul Joachimczyk
Chief Financial Officer

Yes, Anthony, I'll start with the, I'll call it the capital allocation. And that strategy, we were really laid out in our February meeting, but I want to reiterate to you is we are committed to as an organization to getting our debt structure down. We talked about our last call getting our debt leverage ratio to 3x to 3.3x by the end of '26. You can see we'll be at 3.4x by the end of this year.

So very strong performance. Once we are at that level, it does offer us the optionality to go do things like share repurchase and other activities. But debt in the near term is going to be our primary capital allocation strategy that's out there. And I'm not kind of delaying the question, but I really want to wait for that road map in February to give you the full capital allocation story that's out there.

Now the \$100 million of synergies and cost outs, we have put in a significant amount of money in restructuring charges already to date. We will have to allocate some capital to that in '26. That amount has not been released, and we haven't disclosed that. But I will say there will be capital definitely allocated towards that as a priority to hit those synergies and run rate.

Operator

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

Michael Andrew Roxland
Truist Securities, Inc., Research Division

Congrats on all the progress. I just wanted to follow up on Europe again. And can you give us some more color on EMEA, S&P EMEA and the cost savings that you're looking to achieve? It seems like the business is facing headwinds that you think are structural given the cost actions you're pursuing and the end market realignment. So any additional color you can provide on the cost you too to take out dollar-wise and whether you think there's a structural shift in EMEA relative to your initial expectations?

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes, Mike, thanks. This is Rodger. Yes, I think if you look at what we've actioned. First of all, you've got the synergies that Paul just talked about, so I won't repeat that. Then you've got the incremental cost outs that we're actioning now as a result of learnings that we've had in the marketplace. Typically, and we'll share the more numbers in February, but typically, we're getting 1-year returns on these cost outs. So whether it's footprint consolidation, whether it's actually going in and taking out cost to match the volumes that we see in places like Africa, we look -- we're getting a full 1-year return.

And it's not -- if you look at the base business in Europe, the Europe-based business, we're really just advancing plans that the business had in place, again, going around the metal ends and consolidating our metal end production in low-cost facilities. And we're actually adding some capability in Eastern Europe where we see the growth in products like fish and pet food.

So it really is a balance. What we found is, again, back to Africa, if you look at our small plant in Thailand, if you look at what we have in Turkey with inflation concerns, those outlying areas where we're really targeting getting some pretty significant cost out to match the volumes that we have today and make sure they have the profitability that we see in our base business in Europe. So there's nothing I would say that's extraordinary, different than what we went into the plan with.

The rationale -- strategic rationale around the acquisition is still solid, service quality leader in the organization, strong operational team. Frankly, as we look at next year, where we're focusing, and I mentioned in my opening comments, is around our commercial capability and commercial excellence. We're building out our talent in our regional sales team. We've added talent in France and Italy and Germany. And towards the end of the year, we're going to have a new commercial leader coming into the organization.

So I'm really excited about that. So as you get into all areas of commercial excellence, price cost, real disciplined approach to share gain in the marketplace, so on and so on. That's where we're focusing our time, and I think that's really what will drive our improvement that we're targeting in 2026.

Michael Andrew Roxland

Truist Securities, Inc., Research Division

How much -- from you being involved in the business as closely as you are, how much of the weakness that you're seeing in EMEA relates to end markets versus commercial capabilities and maybe not having the talent in the right seats at present?

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

No, I think it's -- no, I don't see that. I think when I get into those type of comments. Longer term, I think certainly it's going to help us. We've got some exciting growth projects that are going to hit in 2026. For me, it's about recovering all forms of inflation. Again, back to that disciplined process to go to market to win share. So what we've seen this year, the surprises we've seen this year, I hate to repeat myself, is around things like sardines in Africa as some of the business that we've seen in Turkey go -- be reduced as a result of really high inflation levels.

So no, I don't think this -- volume-wise, I think the year played out exactly how it's going to play out. It has nothing to do with commercial capability because we've got wins coming. For me, it's more around that value add, getting paid to be the service quality, technical service leader in the market and make sure we're getting paid for the value we're taking into the marketplace. The volume -- unexpected volume

drops, really, we talked about the reasons for those. And now they're included in our fourth quarter guidance, and we'll talk about more of that in February, how we see it for 2026.

Michael Andrew Roxland

Truist Securities, Inc., Research Division

Got it. And then just one quick follow-up. Can you just help us frame the procurement benefits you expect to receive next year from integrating both U.S. and EMEA steel procurement teams into a single globally focused organization. I think you -- the company originally mentioned \$20 million from reducing support functions. Is that still what you're looking to achieve? Is there any upside to that? Any color would be helpful.

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes. From the procurement, we said from the very beginning that procurement savings of the \$100 million synergies would be about 60%. We said \$20 million will come from synergies around support functions. That's still a really good number. What Howard has been talking about and Paul has mentioned before as far as future restructuring, that would be on top of that. But you're right, the numbers you called out are exactly right.

Procurement is about \$60 million of the full \$100 million run rate and other support cost is about \$20 million. And then final \$20 million is supplying ends to our Paper Can business that we have not supplied before and other one-off moves that we're making. Again, we're fully confident we can get that \$100 million run rate by the end of 2026.

Robert Howard Coker

President, CEO & Director

I think, Mike, your comment related to mine about the \$20 million that we've expanded costs that we've taken out through the course of this year. That's going to be rolling into next year. And then what I alluded to was that we're on the cusp of looking at even more opportunities corporately. I think, well, it's corporate as well as operationally that we'll be talking about as we go into next year.

Operator

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

Ghansham Panjabi

Robert W. Baird & Co. Incorporated, Research Division

Just given that there are so many moving parts with your portfolio, et cetera. Howard, if you just zoom out a bit and kind of think about the end markets, how are you thinking about the operating environment for both consumer and industrial as you look ahead to both 4Q and the early part of 2026? And I'm just asking as it relates to the trend line from what we've seen in consumer and the industrial markets over the last few quarters. Is it -- there any inflection? Or is it just more of the same at this point?

Robert Howard Coker

President, CEO & Director

Yes. First, Ghansham, I appreciate the comments about all the moving pieces. I get it. We've been busy for the last 5 years setting the portfolio in place that we have today. I just want to kind of put a stake in the ground and say that's done. So this is the first quarter being the third quarter where you're actually able to look at the go-forward consumer business, which is nothing but cans. Industrial is what it is.

On the consumer, what's happening at this point in time and into 2026, I'd say, I don't see a real stimulus across the globe at this point in time. We've spent most of this call talking about EMEA. And I talked about the consumer side as it related to -- certainly Rodger as it related to the metal, but paper can volumes are actually okay right now, flattish last year, but that's with the impact of one discrete customer that I think we all understand.

So I'm not looking -- we're not looking for. We're not planning on to see some great resurgence in terms of consumer volumes going forward. Typically, if macroeconomics -- and I say typically, it's actually factual. We went back and looked at slowdowns in the macro, we win on the consumer side, the consumer is spending more in the supermarkets than they are in the restaurants. So we'll see how that plays out.

Industrial, just in North America, just kind of flattish quarter-over-quarter, and I don't think you'll see us expecting that to materially improve either as we go into next year based on what we see at this point in time.

Europe, as we talked about EMEA and we look at fourth quarter and the forecast, yes, we came out of the August holiday season there. And typically, in our industrial business, we see a pretty good lift as we get into September selling off as we get to the latter part of the fourth. We didn't see that lift, so there is -- in September.

So there is definitely signs that things aren't great. And again, additionally, that's been a good thing on the consumer side of the business because people are shopping in the markets more, but too soon to call at this point in time.

Ghansham Panjabi

Robert W. Baird & Co. Incorporated, Research Division

Okay. Howard. And then in terms of the industrial margin expansion of 380 basis points year-over-year for the third quarter. Was there anything unique that boosted the quarter? I mean it seems like margins were quite a bit higher than the trend line over the previous quarters, just given the price cost clip that has benefited. Just more color on that would be great.

Robert Howard Coker

President, CEO & Director

Yes. Price cost is certainly a part of it. And I want to take it back in time. Our margins in our industrial business, if you go back to -- way back to Project Horizon to where we are today with our refocus of saying we are the world's #1 in URB and converted URB products, let's behave that way. So the capitals that we started putting in 4 and 5 years ago have continued to drive improved margins, obviously, exceptional for this quarter and price cost is part of that.

But I'd be remiss if I didn't say, as an example, our North American team has completely restructured how they manage the business, how they look at how they view the business. And what I'm saying is we no longer here have a paper division and a converting division. They're all one.

And it's created a powerful new viewpoint in terms of how we are optimizing our supply chain between the paper mills and the converting operations. It's driven cost out. So there's some stickiness to the improved margins, but certainly, price cost is going to be a part that ebbs and flows. But I'm very, very proud of this team and be able to say that 5 years ago, if I told you guys, we were operating in the 16%, 17%, 18% type margin range. You would ask the same question, when is it going to drop down to 13%.

Operator

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

Mark Adam Weintraub

Seaport Research Partners

Two quick follow-ups. One, on the synergies or really actually the purchasing synergies. I remember last year, the deal closed a bit late. And so you didn't end up getting them in 2025. I would have thought you would have gotten most of that \$60 million in 2026. But the way you talked about maybe like \$30 million in total for synergies, it seems like that might not be correct. Can you explain why the purchasing synergies, how much have already come and why more of it wouldn't come quickly in 2026?

Paul Joachimczyk

Chief Financial Officer

Yes, Mark, it's a great question. And if you think about the cycle of the sales, as they come through throughout the whole year. The procurement is 60% of the overall savings. We did realize a portion of procurement in 2025. So it won't be a full \$60 million of savings and additional incremental in '26. So that's why I'm kind of -- I gave you a midpoint of it to be conservative, and we'll give you that real strong clarity in that February '26 of the outlook of the full synergies and the road map that's out there. But the \$30 million is a conservative approach.

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes. Mark, remember, we're not just people immediately go to tinsplate, but we're talking about all purchasing, so compounds, coatings, indirect, freight and the like. So many of those, we were able to start realizing some synergies this year.

Mark Adam Weintraub

Seaport Research Partners

Okay. And second, congratulations. I think you say it's an all-time record quarter. Your stock doesn't seem to be reflecting the really strong financial performance. I guess I was a little surprised that I didn't sense a more clear-cut communication on the share repurchase opportunity. I mean, I think buying back stock, just the cash benefit of not paying out the dividend is probably after tax even higher than your after-tax interest expense.

And I was just wondering, is that a function of like debt maturities that you have to be conscious of? Or why not kind of a more -- this is a terrific opportunity to take advantage of what's a mispriced stock given the financial performance that you're putting up and I think you're going to continue to achieve.

Robert Howard Coker

President, CEO & Director

Mark, what I'd say is certainly, stock buybacks are in the mix, but we're also looking at -- we talk about options, one of which is obviously stock buybacks, more aggressively pay back down debt and the third being capital reinvestments into the business and restructuring. And so we're balancing -- that's our decision tree, if you will, and which one is going to offer the longest term payback to our shareholders, to our owners. So again, we've talked about the restructuring that -- things that are really coming to light today.

I talked about very chunky business wins and opportunities that we're looking at that are going to require, in some cases, fairly significant capital. So we're taking the approach that at this point in time, let's stay on the path, let's continue to pay our debt down, let's buying these opportunities. And at the right point in time, we look and say, we've got this capital project. We can buy back shares. We can do this restructuring and still maintain the debt type levels that we think our shareholders expect of us and make that right decision at that time.

Operator

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

Matthew Burke Roberts

Raymond James & Associates, Inc., Research Division

Following to Anthony's question earlier on RPC. Any indications on when new international capacity, specifically Thailand will begin to ramp? How many points of incremental volume is expected from that? Or is customer merger time line still a drag into 2026 and potentially delaying any benefit there?

Robert Howard Coker

President, CEO & Director

Yes. So we're ramping up. We are starting up as we speak. So first line is up and running, going through qualifications with the customers. So things are moving forward. What I'll tell you is it was when first

presented to us and we've mentioned it to you guys, the intent is this will be the world's largest paper can facility in the market. So we've got to see this transaction close. The expectation would be that, that would remain the objective. But at this point in time, we're just kind of starting up and on hold.

So we've got a new facility that's ramping up pretty aggressively in Mexico, and we've got capacity additions that are fully ramping up right now in Brazil. So Matt, I wish I knew. It's all quiet right now until things clearer through their process.

Matthew Burke Roberts

Raymond James & Associates, Inc., Research Division

Howard. Second, you mentioned investments in pet and seafood in Europe. What is the timing of when those come online? Any CapEx considerations next year? And relatedly, what is the mix of these categories expected to be versus what it is now? And how do the margins compare to the system average for Metal Packaging EMEA?

Rodger D. Fuller

COO & Interim CEO of Sonoco Metal Packaging EMEA

Yes, Matt, Yes, capital would be in process as we speak, and that will run into the first quarter of next year. So you're looking at growth coming really probably starting the second quarter of next year. If you look at fish and -- seafood and pet, they're both today about 15% to 17% share of our overall market. Pet is a really mover. We see it going to 20% and the same for seafood. So pretty nice gains in both those markets, again, with the whole idea being our seasonal business is very good business, but it's very seasonal. So it's really spread out and better leverage our operations.

As far as EBITDA margin in that business, pretty much average. We approached 18% in the quarter. So I'd say it's maybe slightly better than some of our average margins, but with the incremental investments that will be ramping up starting, let's call it, beginning of second quarter next year.

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

Again, I want to thank everybody for joining us today. And do please save the date for our February 17 New York Investor Day, and we'll be providing you more information on that in the future. Thank you again for your attention.

Operator

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

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