

Smurfit Westrock: How should a five-year growth-capex plan be governed?

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Strategy case for MBA students and working professionals
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The decision

On the morning of July 29, 2026, Smurfit Westrock plc (SW) had just released its second-quarter results. The company was in the middle of a five-year plan to expand earnings, improve returns and generate cash. That plan included roughly \$4 billion of growth capital expenditure over 2026-2030. The release was public; management's scheduled 7:30 a.m. earnings call had not yet begun.

Imagine you are advising a hypothetical internal capital committee. The committee is asked to recommend how management should govern and sequence the published growth-capex allocation: what evidence should justify faster deployment, what should trigger a staged release, and when should a project be delayed or redesigned? The case does not assume that the full allocation remains uncommitted, that particular projects await authorization, or that this hypothetical committee has actual approval authority.

The decision is difficult because SW's public signals point in different directions. Management described the mill system as generally running full and order books as strong. It also reported softer North American corrugated volume, lower year-over-year adjusted EBITDA and operating cash flow, and continuing facility closures. The company disclosed plan-level targets and broad project-size descriptions, but no site-by-site utilization, customer commitments, project schedule or return distribution.

The committee must make a governance recommendation without pretending that the public record can rank individual projects. Routine maintenance, safety, environmental compliance and legally required investment remain funded under every approach.

A global packaging company in transition

SW is an integrated paper and packaging business serving customers across regions. Its operating network includes mills and converting facilities, where paper and other inputs are turned into packaging products. Much of the output from North American mills is used internally by converting operations, although the company also sells externally. That integration can make a capacity decision depend on more than the economics of a single mill: customer service, converting capacity, logistics, product mix and the condition of the wider network may all matter. [FY2025 Form 10-K, Item 1, pp. 8-9; research evidence E1]

The 2025 annual report described 27 North American mills, which represented 58.5% of 2025 external sales. FY2025 was the first full year of combined operations after the July 5, 2024 combination. The year's reported operating cash flow was \$3.392 billion, capital expenditure was \$2.192 billion and dividends were \$900 million. The company also reported \$246 million in impairment charges and \$139 million in restructuring charges, including charges related to the announced St. Paul mill closure. These figures establish scale and ongoing footprint changes; one post-combination year does not establish a five-year cash-flow run rate. [FY2025 Form 10-K, Item 1, pp. 8-9; MD&A p. 51; cash-flow statement p. 73; Note 5, pp. 94-95; research evidence E1]

The company's February 2026 medium-term plan set an ambition of approximately \$7 billion in adjusted EBITDA by 2030, about 7% adjusted EBITDA compound annual growth over 2026-2030 and roughly 300 basis points of margin expansion. It also stated a long-term net-debt-to-EBITDA target below 2.0 times, approximately \$5 billion of dividends and the potential to begin buybacks in 2027. These are management targets and plans, not achieved results or guarantees. The plan assumed volume-market growth of 1.6% in North America, 1.7% in Europe and 2.0% in Latin America, with pricing broadly around current through-cycle levels; it assumed no North American paper-price increases. [February 11 medium-term-plan release and presentation, especially slides 15 and 28-32; Q2 2026 presentation slides 10-11 and 16; research evidence E2-E4]

A portfolio-sized investment plan, without project economics

The July results presentation showed roughly \$13 billion of total capex during 2026-2030, including approximately \$4 billion allocated to growth. It described annual capex of about \$2.4-\$2.8 billion, an average project size below \$4 million and no project above \$200 million. Management said the plan would provide capacity from 2027 onward and targeted an approximately 700-basis-point improvement in return on capital employed to about 15%. The presentation did not identify projects, regional allocations, return hurdles, project-level cash flows, ramp curves or a distribution of expected returns. A portfolio of many small projects can still have execution, timing and coordination risks. [Q2 2026 presentation, slides 10-11; February medium-term-plan presentation, slides 28-32; research evidence E4]

The plan also presented about \$14 billion of cumulative discretionary free cash flow, excluding growth capex, and about \$10 billion for capital returns and inorganic investments, including roughly \$5 billion of dividends. The public materials do not provide a bridge that reconciles these categories. They should not be summed or netted into one pool of cash available for reallocation. Nor do they show that one dollar of debt reduction or shareholder return can be shifted mechanically into a growth project. Those choices are competing uses of capital and are relevant opportunity costs, but their financing relationship is not disclosed. [Q2 2026 presentation, slides 10-11 and 16; February medium-term-plan release; research evidence E2, E4 and E11]

The company's pre-cutoff Q1 filing reported \$674 million of cash, \$14.255 billion of debt and \$5.337 billion of liquidity, including undrawn committed facilities, at March 31, 2026. Q1 operating cash flow was \$204 million. The filing also reported \$70 million of accelerated depreciation associated with machine closures. These dated figures help frame balance-sheet capacity, but liquidity that includes borrowing facilities is not the same as internally generated project funding or proof of five-year affordability. [Q1 2026 Form 10-Q, MD&A and liquidity sections; research evidence E12]

The operating evidence is mixed

For Q2 2026, SW reported net sales of \$8.031 billion, compared with \$7.940 billion a year earlier. GAAP net income was \$88 million, compared with a \$26 million net loss. Adjusted EBITDA, a company-defined non-GAAP measure, was \$1.140 billion versus \$1.213 billion, and its margin was 14.2% versus 15.3%. Operating cash flow was \$765 million versus \$829 million. The company declared a quarterly dividend of \$0.4523 per ordinary share. The adjusted EBITDA measure is reconciled to GAAP in slide 21 of the Q2 presentation. [Q2 results release, results table and dividend paragraph; Q2 presentation, slides 17 and 21; research evidence E5 and E9]

Management attributed pressure to significantly higher input costs, especially freight, while describing paper demand as strong and the supply-and-demand backdrop as generally excellent. It expected to recover input-cost inflation in the second half and beyond. The company also said its mill system was generally running full and order books were strong. These are management's characterizations and outlook, not independent forecasts. The same release reported eight additional converting-facility closures in Europe and North America, alongside a UK mill closure. The public disclosures did not quantify the affected capacity, closure cash costs, customer impact or expected savings by site. [Q2 results release, CEO statement, closure and outlook paragraphs; Q2 presentation, slides 4-6; research evidence E6-E7]

Regional results and volume indicators added more nuance. North America generated about \$4.7 billion in Q2 sales and \$704 million of adjusted EBITDA; days-adjusted corrugated volume was down 4.8% year over year. EMEA/APAC reported about \$2.8 billion in sales, \$380 million of adjusted EBITDA and corrugated volume growth of 1.5%. Latin America reported about \$0.6 billion in sales, \$124 million of adjusted EBITDA and volume growth of 1.0%. Segment figures are rounded as presented. Corrugated volume is not a measure of all paper demand, and regional outcomes do not reveal utilization at a particular mill or converting site. [Q2 presentation, slide 9; research evidence E8]

Management's adjusted EBITDA bridge showed a \$60 million price decline and a \$40 million volume decline between Q2 2025 and Q2 2026, partly offset by currency and other factors. The "other" category included freight of negative \$90 million, energy of negative \$22 million, downtime of positive \$26 million and raw materials of positive \$71 million. This is management's bridge, not a project-level margin analysis. [Q2 presentation, slides 17 and 21; research evidence E9]

The Q2 presentation forecast FY2026 adjusted EBITDA of \$4.9-\$5.1 billion, capex of \$2.4-\$2.5 billion, cash interest of about \$0.7 billion and cash taxes of about \$0.5 billion. It also forecast roughly \$300 million of freight-cost increases and \$220 million of energy-cost increases versus FY2025. The adjusted EBITDA outlook was not reconciled to GAAP because of stated uncertainty around reconciling items. These figures were forecasts as of the cutoff, not results. [Q2 presentation, slide 11; Q2 results release, outlook; research evidence E10]

Competitive pressure, cycle risk and research

Packaging capacity can be valuable when customers need reliable supply and lead times are long. Yet paper and packaging demand, costs and pricing can be cyclical. SW's closures raise a practical question: will new capacity meet durable customer demand, or could it add cost and leave assets underused if the market turns? An impairment or closure can impose cash costs, stranded logistics and service disruption even when accounting charges themselves are noncash.

Packaging Corporation of America (PCA) reported record legacy corrugated shipments, up 4.1% per day year over year in Q2 2026, and said its mills were full. It also reported lower legacy earnings amid freight, price/mix, labor, operating-cost and fiber pressure, as well as planned closures and restructuring. Its total corrugated shipments rose 24.3% including acquired operations. PCA is a directional comparator, not a direct match: its portfolio, geographies and acquisition effects differ. [PCA Q2 2026 results release, July 22, lines 29-33, 76-80 and 104-112; research evidence E14]

One fully reviewed academic study examined investment and capacity utilization among Italian firms. It found that firms above a sector- and business-cycle-specific capacity target tended to invest more and were more likely to make an investment spike in several observational specifications. The estimates varied by model and firm size; the study's investment-rate outcome was normalized by average sales, and investment-spike estimates were log-odds coefficients. Its results are associations, not causal project returns, and its survey measures are not engineering data for SW plants. The study offers a reason to ask for local capacity evidence, not a coefficient to apply to SW or a rule that full mills automatically justify expansion. [Mohades et al. (2026), Sections 3-6 and Tables 2-5, PDF pp. 14-23; research evidence A1]

For a hypothetical decision-maker, the evidence leaves several live interpretations. Tight mills and strong orders may signal that delay risks losing customers or margin. North American volume softness and elevated costs may instead argue for caution. Footprint closures may be necessary optimization while selective growth remains attractive; they may also warn against adding capacity before integration and network changes are complete. The public record does not identify which explanation dominates at a project level.

Your assignment

Prepare a decision memo to senior management as of 6:39:56 a.m. ET on July 29, 2026. Recommend a governance and sequencing approach for the published approximately \$4 billion 2026-2030 growth-capex allocation. You may favor faster deployment, staged evidence-gated releases, a regional or project-type emphasis, or another defensible approach. Do not imply that actual projects or committee authority are known.

Your memo should:

1. State the strategic objective and recommend how the company should make and revisit growth-capex decisions.
2. Define the evidence each project or tranche should meet, such as customer demand durability, local bottlenecks, service consequences, full-cycle economics, execution readiness and downside exposure. Distinguish growth from maintenance, safety and compliance spending.
3. Explain how your approach addresses both the cost of waiting and the risk of overbuilding. Include a review cadence and clear conditions for accelerating, pausing, redesigning or cancelling discretionary projects.
4. Discuss the relevance and limits of the medium-term targets, quarterly results, regional indicators, closures, liquidity and competitive evidence. Identify at least two competing explanations for the operating signals.
5. Explain how growth capex competes with debt reduction, dividends, buybacks and other uses of capital without treating the separately disclosed plan labels as reconciled or fungible.

6. List the additional information you would request from management before approving specific projects. Separate facts in the public record from your assumptions.

Do not use information from the 7:30 a.m. earnings call, its replay, the July 31 Q2 Form 10-Q or any later events. No post-cutoff outcome is part of this case.

Source note

Company facts and management statements are attributed above to SW's Q2 2026 results release and presentation, February 2026 medium-term-plan materials, FY2025 Form 10-K, Q1 2026 Form 10-Q, or PCA's July 22 release. Exact URLs, document dates, exclusions and reading-depth notes are recorded in the accompanying research dossier's source-register.md; claim-level locators and caveats appear in evidence-extraction.md. Academic evidence is limited to the fully reviewed Mohades et al. article described above. All financial amounts are U.S. dollars unless stated. Company-defined adjusted EBITDA, discretionary free cash flow and ROCE are not GAAP measures.