

Sonoco: When Is High Utilization Enough?

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Sonoco Products Company had spent several years reshaping its portfolio. It had acquired Eviosys, sold TFP and ThermoSafe, and reorganized consumer packaging operations. In February 2026, management described a financial path through 2028: roughly 4% of sales in capital expenditures, about \$2.5 billion of cumulative operating cash flow, and net leverage below 2.5 times by year-end 2028. These were company targets, not project-level budgets or promised outcomes. [S1, S2]

Now the operating signals from North American uncoated recycled paperboard (URB) were harder to ignore. Sonoco reported that URB trade ton volume had risen 6% in the second quarter and mill utilization stood at 95%. In July, management said demand from new markets and share gains had expanded backlogs and that the company expected to need imports from Europe and Latin America through the third quarter. Yet the public record did not identify which mills were constrained, how much product was imported, what it cost to land, or how long the backlog would last. [S3]

The question for a hypothetical Sonoco capital-screening team was not whether to approve a disclosed plant proposal: none had been announced. It was what evidence should be required before the company advanced a possible North American URB capacity addition from exploration to commitment. Should Sonoco spend now to relieve a potential constraint, keep serving demand through imports and productivity while learning more, or pursue limited improvements that preserve a later choice? The case asks students to design that gate, not to infer an undisclosed board decision.

Signals and counter-signals

The second-quarter results were mixed. Industrial Paper Packaging (IPP) operating profit rose 4% year over year and 29% sequentially, with management crediting productivity and cost control. IPP volume/mix was flat. The Q2 release also reported a 9% increase in paper-can volume in EMEA and Asia-Pacific and management projected paper-can growth across Europe, Asia and South America while saying it was exploring additional capacity plans. That consumer-packaging opportunity was distinct from North American URB and did not establish a domestic URB project. [S3, S4]

Other factors could explain the URB signal. New-market demand and share gains may persist, fade or prove seasonal. Imports could be a bridge-or prove too costly or slow. Productivity may release capacity without a new line. Price increases can help offset cost inflation but announced increases do not show realized net pricing or customer acceptance. Sonoco announced a \$60-per-ton North American URB increase effective July 8 and a €60-per-ton EMEA increase effective September 15. [S5]

One visible investment was not the answer to the URB question. Sonoco disclosed a \$20 million expansion in nailed-wood and steel-reel capacity at Hartselle, Alabama, expected to be completed by year-end. The project served wire and cable demand; it was not URB capacity. The filing also listed high-return growth and margin projects, debt reduction and shareholder returns as capital priorities. No fixed capital ceiling or forced trade-off among those priorities was disclosed. [S1]

Cash and financing offered context, not a shortcut. Sonoco generated \$301 million of operating cash flow in Q2, while H1 operating cash flow was a \$67 million use, including about \$103 million of one-time taxes on prior divestiture gains and seasonal working-capital effects. On September 30, Sonoco reported a credit amendment: \$500 million drawn to refinance an existing \$500 million term loan, plus up to \$300 million of delayed-draw capacity subject to agreement terms. The amendment extended maturities; it did not place \$800 million of new growth cash in the company's hands. [S1, S3, S6]

The screening choice

The team could define three paths for any future URB proposal:

1. **Advance to a full project gate.** Authorize customer, engineering, supply and site diligence, then consider a larger capacity commitment only if demand durability and incremental returns clear explicit thresholds.
2. **Wait and use flexible supply.** Continue productivity work and imports while tracking orders, utilization, landed cost and customer retention; revisit expansion after evidence accumulates.
3. **Stage a limited response.** Evaluate whether debottlenecking or modular upgrades could preserve flexibility while reducing current service risk, without assuming such options are technically available or cheaper.

Each path has costs. Waiting may risk lost sales, customer service or share if a genuine bottleneck persists. Committing too early could leave expensive capacity underused if backlog or market gains reverse. Imports may reduce the need for immediate fixed investment but could expose Sonoco to freight, lead-time, tariff, currency and availability risks. Staging can preserve options, but only if engineering and process constraints make it feasible.

The public information did not resolve those trade-offs. It did not disclose URB utilization by site, saleable yield, capacity additions under consideration, project capex, construction duration, customer-specific demand commitments, cancellation terms, import volumes or landed costs. A useful recommendation would therefore specify the missing evidence and decision triggers, distinguish reversible diligence from irreversible construction, and explain how a future commitment fits Sonoco's broader capital priorities.

Assignment

Assume you advise a hypothetical Sonoco capital-screening team. As of September 30, 2026:

1. What should Sonoco do next regarding possible incremental North American URB capacity: advance diligence, wait, or evaluate a staged response?
2. What evidence and quantitative thresholds would justify moving from exploration to an irreversible commitment? Which uncertainties matter most?

3. How should the team weigh the potential cost of lost demand against underutilized capacity, import exposure, productivity options and other capital priorities?

Do not assume a URB project, board vote, contract, fixed capital constraint or technical alternative exists. Identify what must be verified before a recommendation becomes a project decision.

Exhibits

Exhibit 1. North American URB demand and supply signals

Q2 2026 signal	Reported evidence	What it does not establish
URB trade tons	+6% year over year	Persistence or customer-level commitment
Mill utilization	95%	Site-specific constraint or incremental saleable output
Backlog / imports	In July, management said stronger demand/share gains expanded backlog and expected imports from Europe and Latin America through Q3	Backlog dollars/tons, import cost, duration, or Q3 realized outcome
IPP operating profit	+4% year over year; +29% sequentially, with productivity/cost control cited	URB capacity returns or a need for a new mill
IPP volume/mix	Flat	Whether capacity, mix or productivity caused the utilization signal

Sources: S3 Q2 results release; S1 Q2 Form 10-Q. Company explanations are attributed management statements.

Exhibit 2. Capital and operating context

Measure	Disclosed value / status	Boundary
FY2026 operating cash flow	\$700-800m guidance	Management guidance; H1 operating cash flow was a \$67m use
Q2 operating cash flow	\$301m	Quarterly figure; not a full-year run rate
2026-28 capex target	About 4% of sales	Company target; no URB allocation disclosed
2026-28 cumulative CFO target	About \$2.5bn	Company target, not committed project funding
Net leverage goal	Below 2.5x by end-2028	Management goal
Sept. credit amendment	\$500m refinancing draw; up to \$300m delayed draw under terms	Refinancing plus conditional capacity, not \$800m new growth cash
Hartselle project	\$20m nailed-wood and steel-reel expansion	Separate product and project; not URB

Sources: S1 Q2 Form 10-Q; S2 Investor Day release; S3 Q2 release; S6 Sept. 30 Form 8-K and credit amendment.

Exhibit 3. Questions for a future URB project gate

Gate dimension	Evidence to request	Why it matters
Demand quality	Order duration, cancellation rights, customer qualification and forecast error	Separates durable demand from temporary backlog
Physical constraint	Site-level utilization, downtime, yield and bottleneck analysis	Tests whether 95% aggregate utilization blocks profitable output
Flexible supply	Import volume, landed cost, lead time and reliability	Compares imports with local production on a like-for-like basis
Project economics	Capex, schedule, incremental contribution, working capital and downside utilization	Tests return and exposure before irreversible spend
Option value	Modular scope, staged contracts, restart/exit costs and decision dates	Identifies whether a smaller step preserves future choices
Portfolio fit	Returns and timing versus other growth, debt and shareholder-return uses	Avoids treating company targets as a project-specific capital limit

Illustrative student-designed evidence checklist; Sonoco has not disclosed these as its internal criteria.

Sources

- **S1.** Sonoco, Q2 2026 Form 10-Q, filed July 28, 2026, quarter ended June 28. [SEC filing](#).
- **S2.** Sonoco, Investor Day strategy and financial update, Feb. 17, 2026. [SEC exhibit](#).
- **S3.** Sonoco, Q2 2026 results, July 22, 2026. [Official IR release](#).
- **S4.** Sonoco, Q2 2026 furnished earnings release, segment results and outlook; same release as S3. [SEC Exhibit 99.1](#).
- **S5.** Sonoco, URB price notices: [North America, June 8](#); [EMEA, Aug. 25](#).
- **S6.** Sonoco, Form 8-K filed Sept. 30, 2026, reporting Sept. 25 credit amendment. [SEC filing](#); [Exhibit 10.1](#).