

SXC Earnings Call Transcript

Date: 2025-11-04

Quarter: 3

Operator: Good day, and welcome to the Q3 2025 SunCoke Energy, Inc. Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Shantanu Agrawal, Vice President, Finance and Treasurer. Please go ahead, sir.

Shantanu Agrawal: Thanks, Nick. Good morning, and thank you for joining us to discuss SunCoke Energy's third quarter 2025 results. With me today are Katherine Gates, President and Chief Executive Officer; and Mark Marinko, Senior Vice President and Chief Financial Officer. This conference call is being webcast live on the Investor Relations section of our website, and a replay will be available later today. Following management's prepared remarks, we'll open the call for Q&A.; If we do not get to your questions on the call today, please feel free to reach out to our Investor Relations team. Before I turn things over to Katherine, let me remind you that the various remarks we make on today's call regarding future expectations constitute forward-looking statements. The cautionary language regarding forward-looking statements in our SEC filings apply to the remarks we make today. These documents are available on our website as are reconciliations to non-GAAP financial measures discussed on today's call. With that, I'll now turn things over to Katherine.

Katherine Gates: Thanks, Shantanu. Good morning, and thank you for joining us on today's call. This morning, we announced SunCoke Energy's third quarter results I want to share a few highlights before turning it over to Mark to discuss the results in detail. We delivered Q3 2025 consolidated adjusted EBITDA of \$59.1 million representing a sequential improvement over the second quarter, although not to the extent we expected at the end of Q2. We completed the acquisition of Phoenix Global on August 1, and are pleased with the progress we've made on integration activities thus far. We expect to begin recognizing synergies in 2026. Phoenix's financial results will be reported in our new Industrial Services segment, which also includes our former Logistics segment. During the quarter, we also extended our coke-making agreement with U.S. Steel at Granite City through the end of 2025. With the Phoenix acquisition complete and an updated view of market conditions driving the balance of 2025, we are revising our consolidated adjusted EBITDA guidance range to between \$220 million and \$225 million. Our updated guidance is inclusive of the addition of 5 months of Phoenix results, partially offset by the impact of a deferral of the sale of approximately 200,000 coke tons due to a breach of contract by one of our customers. Our revised guidance contemplates the production and storage and inventory of the 200,000 tons of coke until there is a resolution of the issue. Any changes to these assumptions could impact our guidance range. We are actively pursuing all legal means to enforce the contract. Earlier today, we also announced a quarterly dividend of \$0.12 per share payable to shareholders on December 1, 2025. This is our 25th consecutive quarter announcing a dividend. While the dividend is evaluated on a quarterly basis by our Board, we expect to continue the dividend to reward our long-term shareholders. With that, I'll turn it over to Mark to review our third quarter earnings in detail. Mark?

Mark Marinko: Thanks, Katherine. Turning to Slide 4. Net income attributable to SunCoke was \$0.26 per share in the third quarter of 2025, down \$0.10 versus the prior year period. The decrease was primarily driven by the mix of contract and spot coke sales coupled with lower economics from the Granite City contract extension in the Domestic Coke segment. Additionally, an \$0.11 per share impact is due to the absence of the gain on elimination of the majority of legacy black lung liabilities recorded in

Q3 2024. Transaction and restructuring costs had an impact of \$0.09 per share in the quarter. These dilutive impacts were partially offset by a \$0.32 per share improvement driven by lower income tax expense driven by capital investment tax credits. Consolidated adjusted EBITDA for the third quarter of 2025 was \$59.1 million compared to \$75.3 million in the prior year period. The decrease in adjusted EBITDA was primarily driven by the mix of contract and spot coke sales and unfavorable economics on the Granite City contract extension in the Domestic Coke segment. Lower transloading volumes at the logistics terminals and the absence of the \$9.5 million gain on the elimination of the majority of legacy black lung liabilities recorded in the third quarter of 2024 partially offset by the addition of 2 months of Phoenix global results. Moving to Slide 5 to discuss our Domestic Coke business performance in detail. Third quarter domestic coke adjusted EBITDA was \$44 million and coke sales volumes were 951,000 tons compared to \$58.1 million and 1,027,000 tons in the prior year period. The decrease in adjusted EBITDA was primarily driven by the change in mix of contracted spot coke sales resulting in lower pricing and lower economics and volumes at Granite City from the contract extension. Lower cold coke yields at Haverhill and a weather event at Indiana Harbor resulted in lower production volumes during the quarter as well. While this quarter's performance didn't fully meet our expectations, we did realize modest improvement over the second quarter with sequentially higher adjusted EBITDA and coke production and sales tons. During our second quarter earnings call, we projected a more favorable mix of coke sales in the second half of the year with higher contract volumes driving improvement in the Domestic Coke segment. However, due to the breach of contract by one of our customers, we had marginally lower sales volumes in the third quarter and currently expect a significant impact to results in the fourth quarter. For that reason, we are updating our guidance to reflect the impact of approximately 200,000 tons of unsold blast furnace coke production, which will be stored in inventory. Our full year 2025 Domestic Coke adjusted EBITDA is now expected to be between \$172 million and \$176 million. Now moving on to Slide 6 to discuss our new Industrial Services segment. Our Industrial Services segment, which includes our logistics business, and our Phoenix Global business generated \$18.2 million of adjusted EBITDA in the third quarter of 2025 compared to \$13.7 million in the prior year period. The increase in adjusted EBITDA was primarily driven by the addition of 2 months of Phoenix Global results, partially offset by lower volumes at our logistics terminals due to unfavorable market conditions. Going forward, the Industrial Services segment will report total volumes handled by our logistics terminals and customer volumes serviced at our Phoenix Global sites. The third quarter total logistics handling volumes were 5.2 million tons. Phoenix customer volume service were 3.8 million tons for the 2 months included in third quarter results. Similar to the Domestic Coke segment, the improvement in logistics business during the third quarter did not match what we previously anticipated due to persistent weak market conditions. While we expect to see further improvement quarter-over-quarter, the full year logistics business contribution is expected to be moderately lower than previously guided. We are updating our full year Industrial Services adjusted EBITDA guidance to between \$63 million and \$67 million, reflecting 5 months of Phoenix Global results and lower-than-expected volume improvement at logistics terminals in the second half of the year. Now turning to Slide 7 to discuss our liquidity position for Q3. SunCoke ended the third quarter with a cash balance of \$80.4 million and revolver availability of \$126 million, representing ample liquidity of \$206 million post acquisition. Net cash provided by operating activities was \$9.2 million and was negatively impacted by 2 items: number one, the accounting treatment of a portion of Phoenix Global's acquisition price. Phoenix's management incentive plan and transaction cost cash payments totaled \$29.3 million were included in the acquisition price but flowed through our operating cash flow as a use of cash. Number two, the timing of cash receipts of \$23 million at quarter end, which was subsequently received in October. Without the impact of these 2 onetime items, our operating cash flow would have been approximately \$52 million higher. Net borrowing on our revolver was \$199 million, cash acquired from the Phoenix Global acquisition was \$24.3 million, and after factoring in the \$29.3 million flowing through our operating cash flow, the net purchase consideration for Phoenix was \$295.8 million. We spent \$25.5 million on CapEx and paid \$10.1 million in dividends at the rate of \$0.12 per share this quarter. SunCoke has a strong track record of generating steady free cash flow, and we expect the trend to continue with the addition of Phoenix Global. As Katherine mentioned earlier, we intend to continue utilizing our free cash flow to reward our shareholders with a regular dividend, which is reviewed and

improved on a quarterly basis by our Board of Directors. Let's move to Slide 8 to discuss our updated 2025 guidance. The summary is our full year 2025 adjusted EBITDA guidance. We now expect domestic coke adjusted EBITDA between \$172 million and \$176 million, reflecting the impact of a deferral of approximately 200,000 coke sales tons. We expect Industrial Services adjusted EBITDA between \$63 million and \$67 million, reflecting the addition of 5 months of Phoenix Global contribution, partially offset by lower volumes at our logistics terminals due to weak market conditions. Consolidated adjusted EBITDA is now expected to be between \$220 million and \$225 million. Any changes to the assumptions related to the deferral of the coke sales could impact our guidance range. We have updated our CapEx guidance to approximately \$70 million, reflecting lower CapEx at our coke plants plus the inclusion of Phoenix's portion of CapEx. Our free cash flow guidance has changed significantly due to several factors. Last quarter, we updated our free cash flow guidance to include the favorable impact from tax law changes and lower CapEx spend partially offset by transaction and debt issuance costs. We are now also expecting a \$70 million unfavorable impact to our free cash flow for the full year, resulting from the deferral of cash receipts from our customers' breach of contract. This estimate is based on the information we have as of today. As Katherine mentioned, we intend to pursue all avenues to recover our losses from this event, and it is possible that we will reach a conclusion by later this year or early next year. Additionally, the \$29.3 million related to Phoenix's management incentive plan and transaction costs, which were reflected in the acquisition price are now running through operating cash flow and impacting our free cash flow for the year. We now expect free cash flow in the range of negative \$10 million to 0 and expect \$62 million to \$72 million in operating cash flow for the full year. With that, I will turn it over to Katherine.

Katherine Gates: Thanks, Mark. Wrapping up on Slide 9. While we're not in a position to give guidance for 2026 at this time, we are optimistic about what is to come next year. We continue to have a strong, profitable long-term coke business, underpinned by the 3 pillars of Indiana Harbor, Middletown and Jewell Foundry, which have consistently delivered excellent performance and results. Our Granite City coke plant is distinctly tied to U.S. Steel's need for Coke as well as the granulated pig iron project. Our Haverhill plant is tied to Cleveland-Cliffs, Algoma and the spot market, which remains weak. We're in active dialogue with Cliffs on contract negotiations, but have not signed a final contract yet. We'll have more to say on these plants when we give our 2026 guidance. We continue to have a positive long-term outlook for our Industrial Services segment. 2026 will benefit from a full year of Phoenix Global adjusted EBITDA contribution. We believe the headwinds we are facing in the logistics business are transitory with modest recovery expected in the logistics business next year. As always, we take a balanced yet opportunistic approach to capital allocation. On the back of our steady and healthy cash flow generation, we intend to continue our quarterly dividend as approved by our Board, which has always been well received by our long-term shareholders. We continuously evaluate the capital needs of the business, our capital structure and the need to reward our shareholders, and we'll make capital allocation decisions accordingly. We're committed to maximizing value for all of our stakeholders which means operating and investing in our assets in the best and most efficient way possible. Overall, we see the strong fundamentals of our business and expect our 2026 results to be an improvement over 2025. Let's go ahead and open up the call for Q&A.;

Operator: [Operator Instructions] And your first question today will come from Nick Giles with B. Riley Securities.

Henry Hearle: This is Henry Hearle on for Nick Giles today. So to start off, following the deferral of the 200,000 tons, what is your level of confidence that incremental deferrals won't occur? And then also, would you be able to specify which facilities this deferral is from?

Katherine Gates: So thanks for the question. The 200,000 tons are tons that we anticipate making and putting into inventory for 2025. So as you think about the guidance that we're giving for 2025, it contemplates the production and storage of that coke. We don't talk about specific facilities and contracts in detail. What I can tell you and what you do know is that we make and produce coke for Algoma out of our Haverhill facility. We have flexibility to produce and make coke for Algoma and other customers out of other facilities. But the customer that is in breach of contract and that is resulting in our producing and storing these tons and having the impact on our guidance for 2025 is Algoma.

Henry Hearle: Okay. And then we also mentioned that you're pursuing remedies. What do those

currently look like?

Katherine Gates: So I know you can appreciate that from a legal perspective, there really is very little that we can say. What I will say is that we absolutely think that we have an enforceable contract. We are working with counsel. These are what we call long-term take-or-pay contracts. So without being able to get into litigation strategy and talk about it in more detail, it's very important to note that we think that we have an enforceable contract. We're working with counsel. We're pursuing all of our legal remedies in order to recover any financial losses that have occurred from their breach.

Henry Hearle: Right. And if the contract cannot be enforced in the off chance that happens, where do you go next?

Katherine Gates: Well, we -- I mean, we think that the contract had and will be enforced, and we're pursuing the proper legal avenues to do that. And so what we're doing now, including the assumed production and storage of this coking inventory doesn't impact our ability to recover those financial losses. So we expect to be able to recover and we're going through the process to do that.

Henry Hearle: Okay. And then one more for me before I turn it over. So according to our math, if you annualize those 200,000 tons, you get 800,000 tons. And at \$47 per ton that would be an EBITDA impact of around \$40 million. And this year, you've drawn \$272 million year-to-date on your revolver and you're guiding to near free cash flow breakeven. Could you please walk us through your level of confidence in retaining the dividend and liquidity going forward?

Shantanu Agrawal: So Henry, one thing to note, the 200,000 tons, that is the total exposure left for this year to Algoma. So that's the extent of it. It's not that it's 200,000 on an annual basis or anything like that. That's just the exposure that we have to Algoma that is being currently being produced and stored and that's what kind of the disputed amount is.

Operator: And your next question today will come from Nathan Martin with Seaport Global.

Nathan Martin: It's actually with The Benchmark company, but good morning, everyone. Sticking with the Domestic Coke business for a second, can you guys talk about your strategy for 2026 that you're unable to renew Granite City and Haverhill production under a long-term contract?

Katherine Gates: Yes, absolutely. I mean we're really -- as I sort of said in my remarks, we're really optimistic for 2026. So if you think about the different pieces that we have going into the year, first, we're going to have a full year of the Phoenix results and we expect to have the synergies that we talked about when we announced the transaction. So that will be flowing through in '26. I mentioned that when we sort of build our '26 with logistics, we see that some of the challenges we had this year in terms of just the market imbalance domestic, having higher prices than international, we had 2 customer force majeure events there. Those really caused us to be lower than what our expectations were at the time of Q2. But as we look to 2026, we see modest recovery in that portion of our Industrial Services segment. So then when you think about Coke, you really have the pillars of the Coke business. And those are Middletown, which is a very profitable contract through December 2032. Indiana Harbor likewise through September 2035 and then you have our foundry coke business, which we continue to grow and has had very strong results for us out of Jewell. With Haverhill, we are in active discussions with Cliffs for a contract with our anticipated coke coming out of that facility, although as I mentioned earlier, we can supply out of other locations. So that we're in active dialogue with Cliffs. If we are not able to contract for the full capacity of that plant, then we would have to obviously look at selling into the spot market or selling to others in the North American market, seaborne market, what have you. If we couldn't do that profitably, then in that case, we would have to look at rationalizing our facility. And then with respect to Granite City, that is, as I mentioned, really a plant that's very much tied to U.S. Steel. We're in active discussions with U.S. Steel regarding the extension of that contract. But if we weren't able to extend that contract either because of they're not needing coke or not moving forward with the GPI project. In that instance, then we would not expect to continue to run that facility because it's just so tied to U.S. Steel. But as I said before, we are in active discussions with U.S. Steel regarding the extension of Granite City, we are in active discussions with Cliffs regarding the extension of what I'll call the Haverhill contract. And as we look ahead to '26 and we think about having that full year of Phoenix results, having the modest recovery on the logistics side and then really having that for foundation of Middletown and Indiana Harbor and Jewell foundry, we expect that our results in 2026 are going to be stronger than 2025.

Nathan Martin: Katherine, I appreciate that thorough rundown. Just maybe any updates you can give on that Granite City GPI project in those negotiations you just referred to?

Katherine Gates: You just appreciate that obviously, those are -- those discussions are confidential, but they are ongoing. So we expect that we'll have more to say when we give guidance in early '26.

Nathan Martin: Okay. That's fair. Maybe shifting over to the new industrial segment. Is there any way to break out how much of the \$18 million in adjusted EBITDA was specifically from Phoenix?

Shantanu Agrawal: So kind of when we announced the Phoenix acquisition, right, like we laid out their LTM EBITDA of around \$60 million on an annual basis. So that's kind of a good baseline to use like on a -- like you can divide it by 12 and take it a monthly number. So that's kind of a good proxy for what the Phoenix contribution is and going forward, right, like because it's one segment now, we look at it as like Industrial Services. They're similar businesses, logistics -- formerly logistics and Phoenix Global going forward. We are going to be reporting them together. But that's a good proxy to use for these results.

Nathan Martin: Okay, Shantanu. And then from a I guess from a customer volume perspective, right, the 3.8 million tons you guys shipped from the legacy Phoenix business over the 2 months. Is that a good run rate for a monthly call it, 1.2 million tons. So that kind of gets you to that \$60 million EBITDA number you just referred to.

Shantanu Agrawal: Yes, roughly. I mean, I think we'll give a more refined number when we give the 2026 guidance, that will be a yearly number. but it's in the ballpark, the 1.9 million tons of customer volume service, we are calling it. That's a good monthly number to get to the \$60 million annual EBITDA.

Nathan Martin: Okay. Perfect. I'll pass it on. Appreciate the time everybody in best luck in the fourth quarter.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Katherine Gates for any closing remarks.

Katherine Gates: Thank you, guys, again for joining us on today's call and your continued interest in SunCoke. Let's continue to work safely today and every day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.