S&P Global
Market Intelligence

Sonoco Products Company

NYSE:SON

Earnings Call

Friday, November 1, 2024 12:30 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	8

Call Participants

EXECUTIVES

Lisa K. Weeks
VP of Investor Relations & Corporate Affairs

Robert Howard Coker
President, CEO & Director

Robert R. Dillard
Chief Financial Officer

Rodger D. Fuller
Chief Operating Officer

ANALYSTS

Anthony James Pettinari
Citigroup Inc., Research Division

Gabrial Shane Hajde
Wells Fargo Securities, LLC, Research Division

George Leon Staphos
BofA Securities, Research Division

Ghansham Panjabi
Robert W. Baird & Co. Incorporated, Research Division

Mark Adam Weintraub
Seaport Research Partners

Matthew Roberts

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter 2024 Sonoco Products Earnings Conference Call. [Operator Instructions] I would now like to turn the conference over to Lisa Weeks, Vice President of Investor Relations. Ms. Weeks, you may begin.

Lisa K. Weeks
VP of Investor Relations & Corporate Affairs

Thank you, Krista, and thanks to everyone for joining us today for Sonoco's Third Quarter Earnings Call. Last evening, we issued a news release highlighting our financial performance for the third quarter and was prepared a presentation that we will reference during this call. The press release and presentation are available online under the Investor Relations section of our website at sonoco.com. As a reminder, 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.

Please take a moment to review the forward-looking statements on Page 2 of the presentation. 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.

Please join me this morning in welcoming Howard Coker, President and CEO; Rob Dillard, Chief Financial Officer; and Rodger Fuller, Chief Operating Officer. For today's call, we will have a prepared remarks section regarding our results for the quarter and our outlook for the fourth quarter, followed by a Q&A session. If you will please turn to Page 5 in our presentation. I will now turn the call over to our CEO, Howard Coker.

Robert Howard Coker
President, CEO & Director

Thank you, Lisa. Good morning, everyone, and thank you for joining our third quarter call. As we announced late yesterday, we had another solid quarter, where we delivered sequential and year-over-year increases in adjusted EBITDA, adjusted EBITDA margins and earnings. During the third quarter, sales were $1.68 billion. Adjusted EBITDA was $281 million and EBITDA margins remained strong at 16.8%. Our adjusted earnings per share were $1.49 and operating cash flow was $162 million in the quarter.

In Consumer, volumes were higher year-over-year in Metal Packaging and TFP. Rigid Paper Can volume recovery continues to pace below our expectations, but we're hopeful this will improve as we head into next year. As expected, industrial volumes were flat sequentially and up year-over-year in North America and Europe. Industrial price/cost impacts remained a headwind, which are expected to improve in the fourth quarter. Overall, another solid quarter from the Sonoco team led by excellent productivity results of $39 million. And I just wanted to express thanks to the entire Sonoco family. This has been a difficult 6-week period.

When the first Hurricane Helene track was posted, Sonoco had 63 facilities that were in the storm's potential path. We shut down operations and halted production for the last 3 days of the quarter in the affected areas, the supply chain disruptions continuing through the first week of October. A short time later, Hurricane Milton made a path towards our operations in Florida with major damage to our Plant City location. Through all this, we maintained our focus on caring for our people and finding creative ways to deliver products for our customers. So to all the employees who gave generously to help your fellow team members and lift each other up during a time of need,, we thank you.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

If you please turn to Page 6, where I'll provide an update on a few near-term strategic priorities. We continue to operate with discipline by driving productivity from supply chain savings, production efficiencies and fixed cost reductions. These focused efforts are underpinned by portfolio simplification and focused capital investment, which have resulted in $141 million of productivity through the end of the third quarter. I couldn't be more pleased with the efforts from the entire Sonoco team. We also remain focused on cost optimization activities, including footprint consolidations, most notably in industrial. We're in the process of closing one paper mill and three paper converting operations in China by the end of this year. These activities will continue across our global industrial network as part of our ongoing network optimization program.

We also continue to invest strategic capital and innovation to support organic growth and sustainability initiatives. At the recent 2024 Food and Drink Federations Award, we received the Sustainable Innovations Award for our mono-materials, Pringles can and were recognized for inspiring European Consumer Packaged Goods companies towards fully recyclable packaging. Innovation linked to sustainability as a competitive differentiator in our Rigid Paper Container business, and we continue to invest for future growth in these products. Regarding additional strategic priorities, we were pleased to announce the acquisition of Eviosys in late June, representing an important milestone to scale our strategic metal packaging platform.

The approval processes are well underway and Rodger and the team are making great progress on planning for a seamless integration. Based on the current schedule, we expect to close the transaction in the fourth quarter of this year. If you turn to Page 7, we're looking forward to the addition of Eviosys, which will position Sonoco as one of the leading metal food can and aerosol packaging manufacturers globally. Through the combination of our existing innovative infrastructure and Eviosys technically advanced and well-invested manufacturing footprint, we look forward to serving both existing and new customers and unlocking new opportunities and attractive end markets and geographies. The financial profile of this combination is compelling.

The transaction will be immediately accretive to earnings and cash flow and this year's returns are expected to be well in excess -- or I should say, the first year returns are well in excess of our cost of capital. But most importantly, it gives a strong, powerful operating platform from which to advance both commercial and operating improvements that will help us continue to drive sustainable value and returns for our shareholders. If you'll turn to Page 8. In September, we announced that we were reviewing strategic alternatives for our thermoformed and flexible packaging business, TFP, which is part of the Consumer Packaging segment.

The goal of the review is to accelerate Sonoco's portfolio simplification strategy, improved pro forma leverage and continue to align value-creating capital investments to the highest return opportunities to further increase shareholder value. With this expanded divestiture plan for TFP and our previously announced ThermoSafe divestiture, Sonoco will finance the Eviosys this acquisition with debt and cash and no longer plans to issue equity. Based on our current plans, we expect to reduce net leverage from previous estimates within 24 months of the Eviosys acquisition. From a timing perspective, we still expect to continue the strategic review of TFP through Q4 of this year. TFP has been a valuable part of the Sonoco family for many years, and the contributions have been and continue to be impactful to the company.

And with that, I'm going to turn it over to Rob for a brief financial update. Rob?

Robert R. Dillard
Chief Financial Officer

Thanks, Howard. I'm pleased to present the third quarter 2024 financial results starting on Page 10 of this presentation. Please note that all results are on an adjusted basis and all growth metrics on a year-over-year basis, unless otherwise stated. The GAAP to non-GAAP EPS reconciliation is in the appendix of this presentation as well as in the press release. As Howard said, we continue to deliver strong financial results through our enduring operating model and strong market positions. We grew adjusted EPS to $1.49, which was within our guidance range and exceeded the consensus analyst estimates. This result was driven by positive productivity of $0.31 per share and positive volume mix of $0.06 per share, offset by negative price/cost of $0.29 per share.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

For the quarter, sales decreased 2% to $1.68 billion as volume increases were offset by negative price and negative $92 million from actions to exit or divest nonstrategic position. Excluding these strategic actions, net sales would have grown 3%. We continue to believe that divesting the Protective Solutions business exiting nonprofitable thermoforming markets and reclassifying the recycling business will increase our focus and execution. Volumes across our diversified portfolio were positive but mixed as several businesses experienced near double-digit improvements while others had low or no growth. Overall, volume was positive low single digits in the quarter as mid-single-digit increases in consumer and industrial offset declines in all other.

Organic volume was positive low single digits, as low single-digit increases in consumer and all other offset a marginal decline in Industrial. Price impacted sales negative 1% or $17 million. Negative price was the product of contractual resets in new or existing long-term contracts. We continue to execute our strategic pricing strategy, and we're focused on balancing long-term customer partnerships with improved price/cost. Adjusted EBITDA was $281 million, and adjusted EBITDA margin was 16.8%. This is the highest adjusted EBITDA since Q3 2022 and the highest adjusted EBITDA margin since Q1 2022 when we had meaningful metal price overlap. We achieved this strong profitability through a tight focus on productivity and lower cost.

Productivity was positive $39 million in the quarter. This was our seventh quarter of year-over-year productivity improvement. We anticipate that this trend will continue despite more challenging comparatives in Q4. Price/cost was negative $37 million due to timing gaps between index-driven price and cost changes on a year-over-year basis. While we anticipate sequential improvement in price/cost in Q4, we expect negative price/cost on a year-over-year basis due to increased fixed and other expenses. Page 11 has our Consumer segment results. Our Consumer businesses achieved strong volume increases and drove earnings growth through positive productivity. Consumer sales were flat at $984 million, while volume growth in TFP and Metal Packaging drove mid-single digits overall consumer volume increases.

Our core customers continue to communicate that increased promotion is expected to increase demand, and we expect a more predictable and improved trend as a result. Consumer price decreased 2% due to index-based price resets across the segment. We expect this trend will continue in Q4. Consumer adjusted EBITDA increased 6% to $160 million due to strong performance in TFP and Metal Packaging. We have increasing conviction that our strategy of investing in our consumer segment is generating improved profitability through volume growth and productivity. In the quarter, volume mix was positive $8 million and productivity was positive $18 million. This drove a 90 basis point increase in consumer adjusted EBITDA margin to 16.2%. On a more granular level, RPC performed as expected with sales declining low single digits to low single-digit volume declines.

We have partnership relationships with our core customers in RPC and believe that these volume shortfalls are temporary and due to mix. This is not a trend, and we expect that volume and mix will normalize soon. TFP sales were flat as positive low single-digits organic volumes and strong acquisition performance from Inapel was offset by the impact of the exit of a nonprofitable thermoforming market. Metal Packaging sales increased mid-single digits as positive high single-digit organic volume was offset by negative index-based price resets. Template negotiations in 2025 or 2025 are ongoing. These negotiations are expected to last into the end of Q4, and we have no further updates currently.

Page 12 has our Industrial segment results. Industrial market conditions remain mixed. And while we are optimistic, we continue to believe that we're in a U-shaped market trend. Industrial sales increased 1% to $585 million. These results include the reclassification of recycling, which reduced sales by $20 million in the quarter. Adjusted for the impact of recycling reclassification, industrial sales would have increased 4%. Volume increased mid-single digits, and organic volume was marginally negative. Price increased low single digits due to index-based price resets. We're maintaining strong margin in Industrial due to tight cost controls and operational efficiency.

Industrial adjusted EBITDA was $102 million as $18 million of positive productivity and $8 million of positive volume mix was offset by $23 million of negative price/cost. Page 13 has our results for the all other businesses. All other sales were $107 million as the divestiture of Protective Solutions meaningfully impacted sales. Excluding the impact of Protective Solutions, all other sales would have grown low single

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

digits. All other adjusted EBITDA was $20 million as $4 million of productivity was offset by negative price/cost.

Moving to Page 14. Our capital allocation framework aligns with our business strategy to drive value creation through earnings growth and margin improvement. The 4 pillars of our capital allocation model, our capital investment to drive growth and improve profitability, dividend increases to reward shareholders, programmatic M&A to action the portfolio strategy and share repurchases to return capital and maximize shareholder value.

Our goal is to be the most disciplined deployer of capital in our industry. To achieve this goal, we utilize a dynamic capital allocation strategy that allocates capital to the best strategies and the best businesses. Through this, we expect to improve ROIC and generate strong cash flow. Today, this strategy has generated impressive results. We have generated over $250 million of productivity since the beginning of 2023, and we have invested -- we are investing to increase volumes in our core RPC and Metal Packaging businesses. We expect these strategies will drive the next phase of growth and profitability improvement.

In addition to these organic plans, we're preparing to close the acquisition of Eviosys in Q4. This acquisition and the evaluation of strategic alternatives for both TFP and ThermoSafe will enable more focused investment through our fewer bigger businesses strategy. Following these transactions, each of our 3 core businesses will have a leading global market position. Through this, we expect to drive greater efficiency and improved customer support. We're excited about these next steps and we will provide further updates as our plans progress.

On Page 15, we have our cash flow performance for the quarter. Strong operating performance drove solid operating cash flow of $162 million. We're on track with all major capital initiatives. We invested $92 million in the quarter, and we anticipate investing between $350 million and $375 million in 2024. Turning to Page 16. The foundation of our value creation strategy is disciplined management of our investment-grade balance sheet. This strategy provides Sonoco incredible access to capital, strong liquidity and low cost. We are pleased that we utilized this access to capital to great effect in the financing of the Eviosys acquisition.

We've now closed or secured commitments for the $3.9 billion to fund the acquisition. We received commitments for a 2-year $700 million delayed draw term loan in July. This term loan will be drawn to fund the Eviosys acquisition and is intended to be repaid with the proceeds from the sale of ThermoSafe in 2025. In September, we received commitments for our 364-day $1.5 billion delayed draw term loan. This term loan will be drawn to fund the Eviosys acquisition and is intended to be repaid with the proceeds from the sale of TFP in 2025. Additionally, we expect to repay the 2025 maturities and other debt with the proceeds from the sale of TFP. Finally, in September, we raised $1.8 billion in bond financing with maturities of 2, 5 and 10 years to fund the Eviosys acquisition. This was an incredibly successful capital raise and it was over 5x oversubscribed.

As a result, we were able to achieve a weighted average cost of debt on these bonds of 4.7%. We believe that this reflects investor confidence in our strategy and the strength of our credit position. This issuance was investment-grade rated by Moody's, S&P and Fitch. We're committed to reducing debt and maintaining our investment grade credit rating, and we are targeting to be below 3x net leverage in 2026. Page 17 has our guidance for Q4 2024. Guidance for Q4 2024 adjusted EPS is $1.15 to $1.35. We expect consumer volumes to grow low single digits in Q4 due to acquisitions and improvements in TFP and RPC.

We expect industrial volumes will remain flat in Q4 as we do not yet anticipate a robust recovery. Price trends are expected to improve, though price/cost is still expected to be negative in Q4. OCC is expected to experience a typical seasonal decline in Q4 and the tan bending chip index is expected to continue to reflect market increases. We are reaffirming our guidance for full year 2024 adjusted EPS and tightening the range to $5.05 to $5.25 Similarly, we are reaffirming our full year 2024 adjusted EBITDA guidance of $1.05 billion to $1.09 billion, and we are reaffirming our operating cash flow guidance of $650 million to $750 million.

Now Rodger will further discuss the outlook for the businesses.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Rodger D. Fuller
Chief Operating Officer

Thank you, Rob. If you please turn to Page 18 for our view of segment performance drivers for the fourth quarter of 2024. In the Consumer segment, we expect fourth quarter sales to be lower year-over-year due to a thermoforming facility closure and negative price/cost headwinds. We expect consumer volumes to be up year-over-year from improving demand and new business wins in our Rigid Paper Containers and TFP businesses. Our sustainable solutions with Sonoco proprietary technology and design continues to be well accepted in the marketplace. In metal can for the fourth quarter, we expect seasonally lower food can volumes after the peak pack season in Q3. But in total, we expect metal can volume to be essentially flat year-over-year. From a profitability perspective, we anticipate price/cost to be flat sequentially and down slightly year-over-year and productivity continue to be positive across all our consumer businesses.

Early in the fourth quarter, as Howard mentioned, we were impacted by a major facility damage to one of our large thermoforming operations in Florida, and we lost approximately 2 weeks of operating time. We're working through insurance recoveries now for this damage and we'll try to resolve that during the quarter. Turning to Industrial. We expect sales to be slightly down sequentially from last quarter and year-over-year, including the impact of a reclassification of our recycling business and the exit of some nonprofitable locations in Asia and Europe. Paper volumes are expected to be stable year-over-year. Price/cost in North America will be positive in the fourth quarter as contract pricing has been reset and input OCC costs are lower.

Overall, price/cost will remain negative as price recovery is lagging in the rest of the world. Similar to Consumer, we expect industrial productivity to be positive in the industrial businesses in the fourth quarter. Also, as Howard mentioned, we continued on our footprint optimization journey. Beyond our actions and industrial China business, we are reviewing our network of operations throughout other geographies where we operate and anticipate future closures and consolidations. In our other businesses, we expect lower sales from seasonality and from the divestiture of our protective packaging businesses. In conclusion, for the fourth quarter, the team's focused on strong execution in support of our customers' footprint optimization and all forms of productivity will continue to be critical as we navigate the puts and takes of the current global environment. And with that, back to you, Howard.

Robert Howard Coker
President, CEO & Director

Thanks, Rodger. If you'll turn to Page 20, I want to take a moment to remind everyone of the plans that we laid out to deliver long-term shareholder value at our February 2024 Investor Day. Over the next 5 years, we're targeting adjusted EBITDA of $1.5 billion with a high teens EBITDA margin. And we are expecting to generate cumulative operating cash flow of $4 billion to $5 billion, all while we remain committed to our growing and competitive dividend. We're in full execution mode of our next era enterprise strategy. With the integration of the highly strategic Eviosys acquisition, further portfolio simplification strategy and execution of our long-range plans in our legacy Paper and Metal Packaging businesses, we expect to deliver these results.
In closing, on Page 21, we have a number of upcoming investor events through the end of the year as well as our next Investor Day we're planning in February. We look forward to providing updates on our journey in the coming months. And with that, operator, please open the line for us.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of George Staphos with Bank of America Securities.

George Leon Staphos
BofA Securities, Research Division

Hope you can hear me okay. So I just wanted to bring up kind of a strategic question to start, and I'm sure you've gotten this now since the last conference calls that you've done. Eviosys, you've outlined why this is a good acquisition in your view for Sonoco. You're getting a leading food and aerosol can business, et cetera. At the same time, you're doing the strategic review for TFP, which, while maybe smaller, is also a leading player in its markets. So help us understand what this potential trade, if you will, does to your return on capital and your capital intensity and your growth outlook for the company.

Robert Howard Coker
President, CEO & Director

So thanks, George. A lot to unpack there, as usual. What I would tell you is -- let me start with your question about TFT leading to -- I mean, leading position they have in the market, you can question that, but yes, very good businesses and in the segments that we serve and the niches we serve, you're right. We have very strong market positions.

But as we looked at what it was going to cost from a capital outlay perspective, be it organic or inorganic, the size of the market opportunities within these niches, really didn't think that, that was going to take us to where we needed to be as we compare it to the strong capital demands that we have in our organic core paper can business. We've talked a lot about the investments we're making there globally. And as we look at the metal side, again, a niche market but a much larger market where we will have a significant position on a global basis and feel like when we stack all these up, and frankly, as we finished our 5-year strategic plan journey and looked at the amount of capital demand, we had too many miles to feed. So at the end of the day, we're trading up, if you will, in terms of market opportunity, size, position and frankly, differentiation opportunities from a technology, sustainability and a growth perspective.

George Leon Staphos
BofA Securities, Research Division

Okay. If I could, I just want to see if you have it, do you have any kind of quantification, Howard or Rob in terms of what you think this would add to your return on capital, 1 point, 2 points, what it may or may not do in terms of your growth rate organically going forward and the capital intensity, if there's any way you can dimensionalize it for us with figures. And then my follow-on, and I'll turn it on -- turn it over to the other folks. Assuming no change with TFP, right, you're doing a strategic review, what do you think your interest expense is on a going forward basis for Sonoco. And then let's assume you do move on from TFP, what would be the cost of debt -- for the debt you'd pay down with those proceeds.

Robert R. Dillard
Chief Financial Officer

Yes, George, that's a good question. We think a lot about capital return and capital efficiency as a core component of our strategy as we think about the businesses. One reason why we are pivoting, as Howard said, to these three core businesses as their capital efficiency and ability to generate return on investments in those businesses. As you know, kind of the current ROIC, depending upon how you calculate it, it's about a 12%, 12.1% is our current calculation. We expect that to meaningfully improve to the teens as we execute these transactions. The primary reason for that is recycling capital at a better basis, selling businesses at higher margins and buying at lower and then also the capital efficiency of the remaining business.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

And so a quantification or a guide to that is pro forma for all these transactions, we will have added over $1 billion in revenue and over $200 million of EBITDA and the capital investment required of the business will be the same, if not less. And so the capital efficiency per capital required per dollar of EBITDA generated by the business will be less and the growth rates and ability to continue to invest in those businesses will be greater, we believe.

George Leon Staphos
BofA Securities, Research Division

ROIBDA, you said $20 million of EBITDA, you said incremental.

Robert R. Dillard
Chief Financial Officer

It will be about $200 million, depending on what you're doing with synergies there.

Robert Howard Coker
President, CEO & Director

I think you're also including ThermoSafe.

Robert R. Dillard
Chief Financial Officer

Yes, also including ThermoSafe.

Robert Howard Coker
President, CEO & Director

The divestiture of ThermoSafe, which we've announced, and that will be coming later in the year.

George Leon Staphos
BofA Securities, Research Division

And on the financing side, those questions?

Robert R. Dillard
Chief Financial Officer

Yes. So for the interest expense, I mean, we're committed and fully oriented to our plan, and we've structured this plan and are progressing with the strategic alternatives for these two businesses with great effect. We feel really confident that we're going to hit the base plan and that we'll be able to repay these term loans, which was why we did term loans for the easy repayability. Those term loans actually have higher cost of debt. They're SOFR plus 3.8%. So they're kind of right now in the 6s as a percent of debt that we would be paying off on a pro forma basis.

I think that pro forma for all of that completed, even with the repayment of the 2025s, which are 1.8%, our total cost of debt will be in the low 4s. We anticipate that even if we weren't to do these deals, which we fully intend to that we could refinance those -- that capital at similar rates and thus, it wouldn't affect our overall cost of debt meaningfully at all.

Operator

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

Ghansham Panjabi
Robert W. Baird & Co. Incorporated, Research Division

Just focusing on the current operating outlook for the businesses that you do have, at least for now, what does it feel like in terms of the operating backdrop for industrials and consumer. Do you see any sort of green shoots on a volumetric basis. I understand the productivity and price/cost and so on and so forth. But in terms of your volumes as we look out to 2025, what is the base case at this point?

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Robert Howard Coker
President, CEO & Director

Yes. Thanks, Ghansham. First off, let's talk about fourth quarter as we're trailing into the end of October, I would say that we're pretty encouraged by the volume levels we're seeing. I think some of that, however, is a carryover from the loss of -- or the downtime associated with the hurricanes. But totally a positive trend that we're starting this quarter out on. For next year, we're not building in a tremendous amount of optimism, low single digits up on the consumer side, basically flat on the industrial because we aren't seeing -- it still feels like particularly on the industrial side, it feels like we're still trying to crawl out of this the slowdown.

I will reinforce the fact that the industrial team has done a fantastic job in terms of maintaining the margin profile, the productivity that we're seeing in this lighter environment. But I'm looking for -- or expecting a significant turnaround next year. What we are seeing on the consumer side is real positive signs then offset by some lower volumes that we don't see as necessarily a secular, more of a mix-related short-term issue. But again, going into next year, we're going to be taking more of a conservative viewpoint there.

Ghansham Panjabi
Robert W. Baird & Co. Incorporated, Research Division

Got it. And then on the portfolio side, obviously, you're swapping large portions, right, with Eviosys and simultaneous strategic reviews. How are you managing the organization, including your employees and also your customers during this period of uncertainty to sort of ensure execution consistency. And then just related to that, pro forma for Eviosys and assuming you exit TFP and ThermoSafe, what would be the split between metal and paper. And would you have any plastics left at that point?

Robert Howard Coker
President, CEO & Director

Yes, Ghansham, I really appreciate the question because as I look at this organization, and talk to you guys, this is the -- probably the largest spirit of change this company has been through in our 125-year history. And so how are we managing through what we need to accomplish is what Sonoco has always done is open honesty, communications, fairness and frankly, from a customer perspective, making sure that they were still receiving the tremendous service and quality that they've grown accustomed to from Sonoco as we go through this transition.

Similarly, the internal communications, et cetera, we're being very thoughtful on how we handle that. Second part of the question, metal versus paper. I don't know the split is probably about 50-50. And you asked -- effectively, we're out of single-use plastic. We will -- we are going to continue with our Industrial Plastics division, which produces plastic cores, supports our reels division, et cetera, but it's more durable and not single-use. So we will be -- we'll talk extensively when we're together in February, predominantly from a consumer perspective -- not predominantly, fully, part in the 2 most recycled substrates within recycling industry, being paper, aluminum and steel.

Operator

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

Matthew Roberts

First off, I hope you all and all the team members that were impacted by the storms are recovering and doing well. My first question on productivity, Rodger, I mean, that continues to come in strong, well above the initial $100 million that you laid out earlier in the year. So where are you able to realize these continued savings? And where is there still room for those further gains in 4Q irrespective of volume? And to the gains that you're seeing now have any impact either on the timing or magnitude in regard to the longer-term $300 to $500 million that you laid out through 2028 last February?

Rodger D. Fuller
Chief Operating Officer

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Yes, Matt, good question. We talked in the last quarter or the quarter before, we laid out that $300 million to $500 million range, really based on volumes and the uncertainty around the global economy and global environment. But even at that time, I had confidence we could hit the high end of that range, assuming volume was reasonable. And obviously, the last 7, 8 quarters, we've done an excellent job of delivering productivity, and that confidence really came from the capital we've invested in our businesses over the last 4 to 5 years in optimizing our global paper mill footprint, investing and modernizing our most impactful production lines, consolidating unprofitable operations and investments in automation. All that takes time.

And what we're seeing now over the last few quarters is it's really, really kicking in. So I'm confident it can continue, assuming volumes stay where they are and improve some. For the fourth quarter in our guidance, we've muted the productivity some, it will be positive. I think it's in the $20 million range in our guidance simply because of the way the holidays fall this year in the middle of a week, the last part of December is going to -- our customers will take downtime and we'll probably follow our customers. So with the team staying focused, the continued investments we're making, some still to come. We've got investments laid out for the next 2 years to continue to drive growth and productivity.

So we're confident we'll re-up that estimate on productivity in February when we're together. But my confidence is high, the team's confidence is high that will continue to deliver going forward. Even with the portfolio changes that we talked about, we're already preparing for those changes and how we'll change our investment strategy to focus on those 3 global leadership platforms.

Matthew Roberts

Okay. Great. And then my next question, maybe, Rob, on the divestitures. The ThermoSafe timing in 3Q '25, it seems more definitive at least, but still in line with the 12 to 18 months that you laid out previously. Given it's still a year away, is there anything that gives you more confidence in providing a more specific range for that business? And I know you said no further updates on TFP, but it doesn't stop me if you're trying to see if you could provide any additional color in terms of transaction options or magnitude of the range that you're considering here in the fourth quarter.

Robert R. Dillard
Chief Financial Officer

Yes. Thanks, Matt. Both questions are really valid. I think ThermoSafe, we're getting really positive performance from that business in the market. I think that we were waiting for a bit of an inflection point as they went through a bubble this year in volume, and that business is performing really well as a result. I think that they've got a really ambitious growth and innovation plan that's going to show incredibly well in the market. And that business is really well positioned to launch a process in the near future. We are anticipating that through that process with the interest that we've already gotten, we'll be able to run a very efficient process and in that in the middle part of next year with the fund available by the end of next year for sure.

ThermoSafe -- the TFP process is well underway. We're running an option. We have advisers as we stated, that are doing an excellent job. We feel really confident about how that process is unfolding, a high degree of confidence in how the business is performing throughout that process, which is always a great indicator of success in a process. I think the management team is doing a great job and that we feel, as always, when you're selling a business, you start to realize how great it is. And then when you -- it's hard to kind of let things go, but we're committed to kind of getting this portfolio simplified in the right way and TFP was just the next step in that. And so we feel like we'll have a signed agreement in 6 weeks or so. And we're excited about announcing that and then getting that -- those funds in the bank.

Robert Howard Coker
President, CEO & Director

And Matt, let me just add. I've been asked a few times, so I'll just preempt it if someone wants to ask it is that with ThermoSafe, this is a capacity issue for us in terms of deals. So we're at the tail end of, obviously, the Eviosys,. We're right in the middle of the TFP. We don't have the human capital to try to do

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

with ThermoSafe at the same time. So that's why we're doing the back-to-back. And as Rob indicated, we expect the pharma safety to be aligned them well early in the first half of next year.

Operator

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

Anthony James Pettinari
Citigroup Inc., Research Division

Is it possible to talk a little bit more about -- is it possible -- can you talk a little bit more about the decision-making process for potentially exiting single-use plastic? And I guess what I'm asking is was this purely kind of an ROIC decision that you would just make for any business? Or were you kind of contemplating sustainability trends or regulatory or getting feedback from customers or other stakeholders that kind of made you want to accelerate the move out of consumer plastic more into metal and paper. Just curious if you kind of walk us through the decision-making process.

Robert Howard Coker
President, CEO & Director

Yes. Anthony, this goes back to, gosh, 3, 4, 5 years ago when we as a leadership team really take a hard look as you guys would recall, we had a lot of complexity within our portfolio. And so we spent the first couple of years this leadership team and looking at all of our businesses and evaluating certainly the financial metrics that you referenced. But where -- which ones of these have the potential in and of themselves to be a major future core platform of Sonoco where we significantly #1 or #2 in the selected markets. And a lot of analysis went into that financially as well non.

And that's where we decided. As you recall, we created the all other category to start with and we've been a little in the way of that. And then certainly, the TFP combined asset played a role in that. Sustainability was not part of the conversation. There is -- I firmly believe -- we firmly believe that there's a fit-for-purpose needs for all of the products in our applications, but it certainly doesn't hurt with the story at the end of the day, particularly in other parts of the world.

Anthony James Pettinari
Citigroup Inc., Research Division

Got it. Got it. That's very helpful. And then I'm just wondering on Metal Pack. I mean you saw positive price/cost and organic volume growth despite what seemed like a pretty weak tax season, at least for many crops. I'm just wondering if you can talk a little bit more about sort of the drivers of the strong performance and how you kind of characterize inventories across aerosol and food when you kind of look at the customer base?

Robert Howard Coker
President, CEO & Director

Yes. What I'd say on the food side, slightly down actually. But if you take in consideration, if you recall, fourth quarter last year, we had a customer that went bankrupt on us, we had to take the write-down. So that obviously is lost volume. So effectively, our food can volume was about flat driver there, a good mix of customers with good pack seasons, coupled with a bit of share gain within existing customers. On the aerosol side, we're seeing a return to normalcy, if you will. I think aerosols, if we talk about inventory bills, destocking post-COVID, you can certainly tie yourself the disinfectants for someone bought a case, and it is taking them a while to work through. So what we're seeing from our legacy customers is coming back to pulling at normalized rates.

The second thing that's happened midyear was a smaller competitor in the market decided to drop out and that certainly introduced some incremental volume as well. So the combination on the aerosol side.

Operator

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

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Mark Adam Weintraub
Seaport Research Partners

I just want to follow up a little bit on the M&A since it really just strikes me that you don't seem to be getting any credit for this transformation if you can deliver the types of things you're talking about in terms of accretion. And first, thank you for the explanation on timing with ThermoSafe, that was very clear and helpful. One of the other questions that I think is coming up is to getting to that $200 million of EBITDA accretion, it sort of embeds like $430 million from Eviosys. And I see that you are reiterating that in your slide deck, which is great. But if you look to the first 6 months, the EBITDA was not at that type of run rate. And so I just wanted to check in and get a sense as to what level of confidence do you have at this juncture? Are you getting the updates so that you have good visibility that, that really is a good base number to be using as we try to analyze the net effect of these transactions.

Robert Howard Coker
President, CEO & Director

Yes. Mark, that's the number we continue to use. No, we have not received a firm year-to-date number at this point in time, but indications are we should be right around what we targeted. So we're not concerned about that at all. In fact, Rodger can speak to it. But as we've noted, Rodger is heading up the integration, spend a lot of time in Europe with the team, all of that is going extremely well. And I think if anything, we're walking away with a strong result in terms of our targets around synergies and opportunities there.

Rodger D. Fuller
Chief Operating Officer

Yes, Mark, seasonally, for Eviosys' third quarter is their strongest quarter, and that carries pretty strongly in October 1 of the fourth quarter as well. So it's hard to look at the first half results and annualize that, as Howard said, we don't have that update yet, but we'll get it soon. But they're in the middle of their heavy season in October and like our October seems to be in pretty good shape. And yes, great -- they have a fantastic leadership team, developing good relationships, focusing on all the planning that goes into the integration and the day 1. Obviously, there are a lot of things we don't know yet. But doing a lot of communications, spend a lot of time with the team and getting very comfortable with the synergy targets that we laid out.

Robert Howard Coker
President, CEO & Director

And Mark, your first -- your opening comments doesn't seem to feel like we're getting a lot of credit for what's to come. Thank you. We agree with that 100%. We are a deal of a century. This is my viewpoint in terms of where we're trading at this point in time. But I mean, uncertainty, I get it. We got a lot going on. I opened up by saying that we're at -- this is not a norm for Sonoco. We are in the midst of more change in this company than ever undertaken in its history, but we are extremely excited, confident and we think that we know we will move out our forecast and our expectations and the market will respond accordingly.

Operator

[Operator Instructions] Your next question comes from the line of George Staphos with Bank of America Securities.

George Leon Staphos
BofA Securities, Research Division

I was hoping you can maybe give us a bit more detail in terms of what you're seeing in the industrial markets. You've got some positive momentum on URB pricing, which is good. You said industrial markets are still sort of trying to crawl out from the recovery or into a recovery. Can you give us a sense for what the cadence of volume has been? And there's been a lot of discussion on the earnings calls, we were just at one of the industry conferences about the supply of boxboard globally, recognizing that you are being what you do is very much a niche. Nonetheless, are you seeing any pressure from the supply that's

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

out there in the boxboard markets or really not that big of a deal at all for many reasons, including your integration.

So pricing trends, how is that moving demand? What kind of cadence in the third quarter into the fourth quarter and the outlook for next year is flat, why if you're improving and then supply on boxboard globally? And what it means for you or not?

Rodger D. Fuller
Chief Operating Officer

George, it's Rodger. I'll try to give you some color and if you have a follow-up to that, fine. But yes, tube and core volumes, especially in North America, have been pretty good the last 2 quarters, up a couple of percent in the third quarter. It's just been uneven. And that's what we've seen really across the board, even in our the paper side of our business. You feel like you're really seeing some volume push up and then it softens up. But if you look at the third quarter specifically, paper mill cores and film cores were both strong on a year-over-year basis, which we feel like is driven by consumer spend and retail on food and other types of products.

On the other side, textiles, protective packaging, white goods very weak, and that's something we've seen in the last couple of quarters. So it kind of bounces from quarter-to-quarter. If you look at the fourth quarter, we expect it to be basically flat in North America. The real weakness that we're seeing in driving that global industrial number down is outside the U.S. Asia very, very slow in both paper and tube and core, even ex the work we're doing to exit China and Industrial, the rest of the Asian market, very slow.

Europe, a lot more competitive on the boxboard side, on the tube and core side, and we've seen weakness there. We've exited the Greece markets, so we're doing our best to get out of nonprofitable operations. But all in all, pretty uneven and that's why we're calling it flat next year because you just don't see any sustainable trends as you look forward. On the URB side, capacity in the third quarter for us was still pretty strong in North America, about 94%. Globally, about 89%, because we were driven down by Europe and Asia. We expect that to come down some in the fourth quarter, simply because of the holidays, pretty normal in the high 80s, probably.

But yes, we're not -- again, we get the question all the time, boxboard, imports or URB imports, we see a little bit of that. We don't see anything that's changed substantially. But we're seeing the same thing in our paper markets. Tissue and towel was strong in the third quarter. It seems to be slowing some in the fourth quarter, probably just inventory adjustments. So it's -- the reason we're saying flat next year because there's just no sustainable trends that are really tied to on a multi-quarter basis.

George Leon Staphos
BofA Securities, Research Division

Understood. I've gotten a question coming in. I'll relay it on behalf of somebody. Do you expect any regulatory hiccups with Eviosys? If you could comment there. And then also the question, why do you think what's going on in RPC is not secular as opposed to just timing? And now good luck for the quarter.

Robert Howard Coker
President, CEO & Director

Yes. Thanks, George. No, we don't -- we've received clearance from across the board and are now in the countdown phase with the CMA. So we don't expect any issues there. Yes, RPC really, you can tie it to just a couple of customers. And frankly, if it was their conference call, they'd be saying, hey, volumes have been pretty good. They measure their performance as it relates to kilos of product they've produced and shipped, and it's been good. But it's created a mix issue for us as they've gone to slightly larger packs versus smaller packs. So it's a math issue in terms of units run through our RPC organization. That's why I say this happens. It can be a quarter or 2 and then it trends back and we get back to a normalized mix.

Operator

Your final question comes from Gabe Hajde with Wells Fargo.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Gabrial Shane Hajde
Wells Fargo Securities, LLC, Research Division

Two questions. Rodger, I think you made a reference to tan bending chip prices continuing to move up. And I was curious if there's an active price increase in the marketplace that we're not aware of or haven't seen. Meaning, was that a reference to indices moving higher? Or is this just a function of what's been posted working through your contracts?

Rodger D. Fuller
Chief Operating Officer

Yes, I think it was in Rob's prepared comments, Gabe. But we're okay where it is. We don't expect it to move higher this year. So at this point, with OCC coming down, we expect it will be flat for the balance of the year.

Gabrial Shane Hajde
Wells Fargo Securities, LLC, Research Division

Okay. I must have misheard that. And then there's some consolidation in a couple of your big customers. Just curious, looking back in history, how that's impacted the business, if at all?

Robert Howard Coker
President, CEO & Director

What I'd tell you is I know exactly which one you're talking about, it's been very positive. I guess I don't want to get into brands, but typically, when we see a consolidation like this, there -- we see much more activity in terms of promotion of the brand. In this particular example, tremendous opportunities to increase distribution chains and channels where the previous may not have had a strong presence. So we're bullish. And frankly, we have great relationships with all of our customers. And the example that you're citing, I say the same there. So we think this is a very, very positive thing and the prior owners have done a fantastic job in reinvigorating the brand, and we expect that there's going to be even more coming.

Operator

And that concludes our question-and-answer session. I will now turn the conference back over to Lisa Weeks for closing remarks.

Lisa K. Weeks
VP of Investor Relations & Corporate Affairs

Yes. Thank you, everyone, for joining us today. As Howard noted, we're going to be out and about in the fourth quarter. We look forward to speaking with you and seeing you at our Investor Day in February. If you have any questions, please don't hesitate to reach out, and we'll be happy to take any follow-ups that you may have. Thank you again, and hope you all have a wonderful day.

Operator
Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation, and you may now disconnect.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2024 S&P Global Market Intelligence.