S&P Global
Market Intelligence

Sonoco Products Company

NYSE:SON

Earnings Call

Wednesday, February 19, 2025 1:30 PM GMT

Call Participants

EXECUTIVES

Jerry A. Cheatham
Interim CFO & VP of Global Finance for Industrial Paper Packaging

Robert Howard Coker
President, CEO & Director

Rodger D. Fuller
Chief Operating Officer

Roger P. Schrum
Interim Head of Investor Relations

ANALYSTS

Bryan Nicholas Burgmeier
Citigroup Inc., Research Division

George Leon Staphos
BofA Securities, Research Division

Mark Adam Weintraub
Seaport Research Partners

Matthew Burke Roberts
Raymond James & Associates, Inc., Research Division

Michael Andrew Roxland
Truist Securities, Inc., Research Division

Richard Clayton Carlson
Wells Fargo Securities, LLC, Research Division

Presentation

Operator

Thank you for standing by, and welcome to the Sonoco's Fourth Quarter 2024 Earnings Conference Call. [Operator Instructions]

I'd now like to turn the call over to Roger Schrum, Interim Head of Investor Relations and Communications. You may begin.

Roger P. Schrum
Interim Head of Investor Relations

Thank you, Rob, and good morning, everyone. Yesterday evening, we issued a news release and posted an investor presentation that reviews Sonoco's fourth quarter and full year results, along with our 2025 guidance. Both are posted on the Investor Relations section of our website at sonoco.com. A replay of today's conference call will be available on our website, and we'll post a transcript later this week.

If you would turn to Slide 2, I would remind you that during today's call, we will discuss a number of forward-looking statements based on current expectations, estimates and projections. These statements are not guarantees of future performance and are subject to certain risks and uncertainties. Therefore, actual results may differ materially. Additionally, today's presentation includes the use of non-GAAP financial measures which management believes provides useful information to investors about the company's financial condition and results of operations. Further information about the company's use of non-GAAP financial measures, including definitions as well as reconciliations to GAAP measures is available under the Investor Relations section of our website.

Finally, references to certain financial metrics along with corresponding year-over-year comparable results made on this call are on a full company basis, except when specifically referred to for continuing operations or for discontinued operations.

Joining me this morning are Howard Coker, President and CEO; Rodger Fuller, Chief Operating Officer; and Jerry Cheatham, Interim Chief Financial Officer.

For today's call, we will have prepared remarks, followed by Q&A. If you will turn to Slide 4 in our presentation, I will now turn the call over to Howard.

Robert Howard Coker
President, CEO & Director

Thank you, Roger, and welcome back. 2024 was a milestone year for Sonoco, we created global leadership in sustainable metal packaging following the December 4 acquisition of Eviosys, Europe's leading food cans, ends and closures manufacturer. As Slide 5 shows, we jump started the integration process with day 1 celebrations with large groups of employees at several Eviosys facilities. Our teams are now deep in the process of integrating into Sonoco Metal Packaging, EMEA and achieving our 2-year $100 million synergy target.

Also on December 18, we further transformed our portfolio through the announced divestiture of our thermoform and flexible packaging business to TOPPAN Holdings, approximately $1.8 billion. We're on track to complete the sale during the second quarter having now received approval from regulators in the U.S., Brazil and the U.K. We're continuing a strategic review of our remaining cold chain temperature-assured packaging business to further focus on our metal and paper packaging, consumer and industrial businesses.

Moving to Slide 6, you see the key results for the fourth quarter. Despite persistent price/cost headwinds and the impact of 2 hurricanes earlier in the quarter, our team stayed focused on driving solid operating results. Jerry will provide the details and drivers for the quarter but adjusted earnings per share, excluding Eviosys, which we did not project in our guidance, were within our expectations. While Eviosys recorded a loss in December, it was primarily due to interest expense that was incurred and operations were experienced a normal year-end holiday season slowdown. Rest assured, Eviosys is a highly profitable, high-quality asset and results so far in 2025 are certainly meeting our expectations.

Overall, in the fourth quarter, Sonoco produced 5% improvement in adjusted EBITDA and adjusted EBITDA margin expanded to nearly 15%, driven primarily by strong productivity. For all of 2024, we achieved approximately $183 million in productivity savings equally split between our Consumer and Industrial segments. As mentioned earlier, some of our operations were impacted by 2 hurricanes, which hit the Southeast United States in early fourth quarter, including our largest thermaforming facility in Florida, which had the roof destroyed by Hurricane Milton. Our employees went above and beyond to minimize downtime caused by the storms while at the same time taking time to volunteer in their communities to help with cleanup and recovery efforts.

Finally, Sonoco generated a better-than-expected $834 million in operating cash flow and $456 million in free cash flow. This was the second largest operating cash flow year by Sonoco, and we invested a record $378 million on capital projects focused on growth and productivity. The results of our multiyear invest in our sales strategy are demonstrated through our improved productivity.

Today's investments are more weighted towards growth. If you look at Slide 7, you'll see where we're continuing to invest across our businesses, including expanding greenfield paper can production in Thailand, in Mexico and in the U.S. All of these projects are sponsored by customers and will increase organic sales over the next several years. And I should add, the Thailand facility is expected to become one of the world's largest paper can production sites when fully completed over the next few years.

Also, we're recapitalizing caulk tube production for adhesives and sealants for our customers who experienced strong demand as contractors and homeowners repair their homes and businesses from unprecedented storms and fire-related damages. In Metal Packaging, we're adding capabilities to meeting rising demand for aerosol cans in the U.S. and wet pet food cans in both U.S. and Europe, along with customer-specific caps and closures projects. And finally, our Industrial paper products businesses are continuing to capture targeted growth opportunities and productivity projects in the U.S. and Europe while we continue to focus on rightsizing select markets.

Now with that brief introduction, let me turn the call over to Jerry Cheatham, who took over the interim CFO role in January, and frankly, is doing a great job. I won't go over Jerry's impressive resume, but I've worked with Jerry for most of my career, including when I headed Sonoco's Industrial segment and Jerry served as the group's financial leader. Jerry knows our operations extremely well, and he has the trust and respect of our global finance organization. Jerry, welcome and please take us through the numbers.

Jerry A. Cheatham
Interim CFO & VP of Global Finance for Industrial Paper Packaging

Thanks, Howard. I'm pleased to present the fourth quarter financial results, starting on Page 9 of the presentation. Please note that the results are on an adjusted basis and all growth metrics are on a year-over-year basis, unless otherwise stated. The GAAP to non-GAAP EPS reconciliation is in the appendix of the presentation as well as in the press release.

As Howard said, 2024 was a milestone year for Sonoco. We made significant progress on our strategy of fewer, bigger businesses that will enable more focused investments to drive value creation through earnings growth and margin improvement. We are confident and excited about the future and expect the leading global market positions of our 2 core businesses to drive greater efficiency and improve customer support.

We grew adjusted EPS excluding Eviosys to $1.17, which was within the lower end of our guidance range. The negative $0.17 related to Eviosys consisted primarily of interest expense on the related transaction financing for the time period we owned the business in 2024. The 14.7% EPS improvement year-over-year was driven by strong performance -- by strong operational performance and fixed cost reduction initiatives. Productivity was positive $41 million and marked the eighth consecutive quarter of year-over-year productivity improvement. This was further aided by low single-digit volume growth in the Consumer and Industrial segments and partially offset by the negative impact of price/cost and lower volumes in our all other businesses.

Fourth quarter net sales increased 2% to $1.4 billion, excluding discontinued operations of $297 million. This favorable change was driven by low single-digit volume gains and the impact of December sales from the Eviosys acquisition that was completed on December 4. This was partially offset by reclassifying the recycling business as a procurement function, lower selling prices and reduced volumes from actions to exit or divest nonstrategic positions. Adjusted EBITDA of $247 million was up 5% and adjusted EBITDA margins improved by 46 basis points (sic) [50 basis points] to 14.9%.

Page 10 has our Consumer segment results on a continuing operations basis. Consumer sales were up 18% due to the Eviosys acquisition and favorable volume mix. This was partially offset by lower selling prices. Eviosys contributed 27 days of sales in December that reflected their normal sales pattern of lower sales during the holiday period. Our global rigid containers and domestic metal packaging business, both experienced low single-digit organic volume growth. Consumer adjusted EBITDA margins -- Consumer adjusted EBITDA from continuing operations grew 9% year-over-year due to productivity and fixed cost reductions that was partially offset by negative price/cost.

Page 11 has our Industrial segment results. Industrial sales decreased 4% to $571 million. These results include the reclassification of recycling, which reduced sales by $24 million during the quarter. We also completed the exit of our industrial operations in China during the quarter. Adjusting for those actions, Industrial sales would have been up 2.7% year-over-year. Organic volumes increased by low single digits, sales were also benefited by low single-digit improvements in selling prices due to index-based price resets. Adjusted EBITDA margins improved sequentially through the year, and were up 250 basis points year-over-year in the fourth quarter, driven by strong productivity. Adjusted EBITDA increased by $11 million to $102 million, representing a 12% increase.

Page 12 has the results of our all other businesses. All other sales were $88 million and adjusted EBITDA was $8 million. The sales and adjusted EBITDA results were negatively affected by the divestiture of Protective Solutions, as customer's new product launch in 2023 that did not repeat in our Industrial Plastics business, along with slowing sales from COVID vaccine distribution.

Turning to Page 13, we have our cash flow performance for the year. Strong operating performance drove operating cash flow generation of $834 million for the year. This was the second best year on the heels of $883 million record year performance in 2023. We invested $378 million for the year on capital projects to enable future growth and drive margin improvement.

Now turning to Page 14 and looking ahead to 2025. Our full year guidance considers a full year of Eviosys and one full quarter of TFP. OCC is expected to average $100 for the year. We're expecting a stronger dollar in 2025 and an average effective tax rate of approximately 25%. The euro exchange rate is expected to average [1.055] for the year.

Turning to the sales bridge on Page 15. We're projecting sales to grow by 21.5% from $6.6 billion to approximately $8 billion, primarily due to the acquisition of Eviosys, net of the TFP divestiture and organic growth in our legacy businesses. In Consumer, we expect low single-digit organic growth, partially offset by negative index-based price reset. For the Industrial segment, we also expect low single-digit organic volume growth and favorable price due to contractual resets with existing customers. Volume in all other -- in the all other group of businesses is expected to be mixed with organic growth varying from low single digits to mid-teens.

Slide 16 provides a summary of our key drivers of our adjusted EPS guidance. We expect to deliver adjusted EPS growth in the range of 19% to 23% above the 2024, EPS of $5.06, that excludes the $0.17 from Eviosys in December. Earnings in our legacy businesses are expected to grow by approximately 10%, driven by continued strong operating performance, productivity, organic growth, partially offset by negative price/cost due to higher fixed and other expenses. The Eviosys acquisition is expected to be 25% accretive and the TFP divestiture is expected to be dilutive in the range of 7% to 9%. These projected impacts reflect the associated earnings in 2025, net of the interest expense impact from the related financing and expected debt repayment. Nonoperational expenses are expected to lower EPS between

$0.25 to $0.30, due to a higher effective tax rate resulting from discrete items in 2024 that we do not expect to repeat, FX headwinds and higher net interest expense.

Page 17 presents our cash flow guidance and key assumptions. We expect to have another strong year of operating cash flow performance in the range of $800 million to $900 million and free cash flow between $450 million to $550 million. We are targeting capital expenditures of approximately $360 million to drive growth and margin expansion opportunities. The ratio of capital spending as a percent of net sales is expected to be slower compared to 2024 due to a higher emphasis on debt repayment. We expect volume growth to lead to a use of net working capital of approximately $25 million.

Now with that, I'll turn it back over to Howard for closing remarks.

Robert Howard Coker
President, CEO & Director

Right. Thanks, Jerry. I'll now move to Slide 18. Sonoco today is the global leader of value-added sustainable metal and fiber consumer and industrial packaging. We've become a simpler, stronger and more sustainable company with products, technology and market presence that positions us to consistently win in the marketplace. Since I was honored by our Board of Directors 5 years ago to become CEO, we've gone through a strategic transformation to remove complexity and build fewer bigger businesses. That process has led us to divest the low-margin display and packaging business and other smaller noncore assets. We moved away from resin-based businesses ranging from molded foam products for automobiles, the plastic bottles and tray for food, beverage and medical packaging. We did so because we found we could not achieve the necessary scale to consistently win in the marketplace.

And we've leaned into our growing aerosol and cans, along with caps and closures in the U.S. and EMEA, where we now have assembled quality assets and strong market position. For example, purchasing Ball Metalpack in January 2022, we've driven greater than 10% annual growth in adjusted EBITDA and continued defined opportunities for growth. We believe we can achieve similar results with Eviosys and are projecting approximately 10% improvement in adjusted EBITDA for 2025.

As mentioned earlier, another key tenet of our strategy is to invest in ourselves. As an example, over the past 5 years, we've made investments in our global paper can franchise that have resulted in sales growing by nearly 25%, particularly in emerging markets and with all new paper cans that offer more market differentiation. Our iconic integrated URB industrial paper products business is the global leader of product technology unmatched by our competitors. The continued investment and pruning of certain lower profit businesses and markets, we have grown EBITDA in North America by approximately 40% since 2020.

And finally, the new Sonoco has become its cash-generating engine producing approximately $1.7 billion in operating cash flow and $1 billion in free cash over the past 2 years. After investing in ourselves, our capital allocation strategy is focused on reducing leverage between 3x to 3.3x net debt to adjusted EBITDA by the end of 2026, utilizing proceeds from divestitures, asset sales and our strong free cash flow.

And finally, we expect to achieve an extraordinary 100th consecutive years of returning cash to our shareholders in the form of sector-leading dividends.

Slide 19 is a graphic representation of what the new Sonoco is expected to achieve in 2025, along with our businesses and served markets. We project sales will grow approximately 20% between $7.75 billion and -- or excuse me, $8 billion. Adjusted EBITDA is expected to grow approximately 30% to between $1.3 billion to $1.4 billion. The cash flow from operations will remain strong between $800 million and $900 million.

Finally, our mix of business is further shifting to more consumer markets and our geographic reach will become more balanced around the world with more than half of our sales still occurring in the United States. Looking forward, we believe our transformed portfolio of world-class consumer, industrial packaging businesses are well positioned to serve the challenging changing needs of our diverse global customers. We're off to a solid start to 2025, and I believe our prospects for continued growth, margin improvement and strong cash flow generation will continue to allow us to return greater value to our shareholders.

And with that, operator, we're ready to take any questions.

Question and Answer

Operator

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

George Leon Staphos
BofA Securities, Research Division

Thanks for the details. Jerry. Welcome, Roger, great to hear your voice again. I hope everybody is well. I guess can you talk a little bit about the exit rates or early 1Q rates depending on your perspective that you're seeing across your most important businesses? Relatedly, can you talk about how Eviosys is doing relative to the original, I want to say, $430 million of EBITDA guidance on an annualized basis? And lastly, can you talk about how much you're expecting from TFP in the first quarter? I might have a quick follow-on.

Robert Howard Coker
President, CEO & Director

Sure, George. On the exit rates, actually, the adjusted run rate for Eviosys looks like it's going to be somewhere in the neighborhood of around $390 million for 2024. As we've entered into 2025, our expectation is and our plan is a 10% increase in that number, and that's what we've got built into our guidance. And so far, we're seeing that type of run rate, obviously, early with the 1.5 months behind us. But we're very bullish about the go-forward there. And then on the remainder of businesses, yes, we've been seeing sequential improvement, particularly on the metal can business here in North America, slight improvements to flat, flattish coming out of December on the paper can business, we've seen consecutive improvements, particularly in North America on the Industrial business quarter-over-quarter over the last 3 quarters.

So as we enter the new year, we feel uniquely positive about how we're starting things out. Of course, a lot of uncertainty with what's going on in the macro perspective, but we control what we can control.

Jerry A. Cheatham
Interim CFO & VP of Global Finance for Industrial Paper Packaging

Yes. Just as it relates to expectations for TFP in the first quarter, we expect their first quarter 2024 performance to be similar to what we saw in Q4 2024.

George Leon Staphos
BofA Securities, Research Division

Okay. So that would be roughly $20 million-ish, $25 million, if I remember correctly from the slides. And then just maybe last question. Industrial, I recognize you're seeing sequential improvement. Was the business on plan with where you're expecting for the fourth quarter? It was somewhat below our forecast, which is neither here nor there, but just want to see if there are any things in 4Q that were either positive or negative relative to your guidance?

Rodger D. Fuller
Chief Operating Officer

Yes, George, this is Rodger. Yes, as far as Industrial in North America, we were very pleased with the fourth quarter. As Howard has already said, we've seen nice growth in our tube and core converting operations in North America with the team doing a really nice job from a service and quality standpoint and winning some share, especially in the paper mill core area. Paper volumes, URB volumes in North America were basically flat, maybe up just slightly. We do see weakness outside of North America. And I think that's what you're seeing in the numbers, George. Europe continued to be very soft. We've got work to do there, frankly, from a paper standpoint. From a capacity standpoint, we're working hard on that.

As we talked about last quarter, we took a small paper machine out of Greece. Over the past 2 quarters, so we're looking hard at the European paper platform and pricing in Europe continues to be difficult from a competitive situation. And in Asia, across the board in our Industrial businesses in Asia, very soft volume. We exited China. So you're seeing some of that in the numbers. We've taken a small paper machine out of Indonesia. So frankly, the weakness is coming from outside North America. We're optimistic about North America. Price/cost turned positive in North America in the fourth quarter, which was a very good sign, and we see that continuing into the first quarter.

So as outside North America, we're working hard to get cost right, and we'll see sequential improvement, but it will take a little time as we run through 2025.

Operator

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

Bryan Nicholas Burgmeier
Citigroup Inc., Research Division

This is actually Bryan Burgmeier on for Anthony. My first question is just kind of from a high level. I think guidance kind of points to low single-digit volume growth in 2025. Just curious what that maybe implies specifically for Consumer? We maybe consider that to be a little bit above peers or a little bit above maybe some of the blue chip customers. So I'm just curious what's driving that.

Robert Howard Coker
President, CEO & Director

Yes, Bryan, if I just look at my charts here, really, we're seeing it in the 2 main businesses left in Consumer, the metals business in North America, we saw an aggregate solid but low single-digit type growth over the last year quarter-to-quarter-to-quarter actually strong and in the low double -- low single digits for the full year. And we're seeing a pickup in our global paper can business as well. So I talked earlier about capital deployment.

A lot of those projects, the new plants in Thailand, Mexico, new lines in the U.S., some are in the early stages of start-up. Others will be starting up over a period of time. But we're not, as we said, low single type digits. We're not forecasting any great recovery, but that's where it's being driven from.

Bryan Nicholas Burgmeier
Citigroup Inc., Research Division

Got it. Got it. And then maybe just within your Metal businesses, are you expecting maybe a better pack season in 2025? I think the North American pack was pretty weak last year. I'm curious if you think maybe you have a full recovery or a partial recovery. I know you just said you're not forecasting anything major, but just specifically kind of thinking about North American metal.

Robert Howard Coker
President, CEO & Director

Yes. I'd say we're not -- slightly better. I mean, [veins] were impacted. There were a few markets that were impacted, but as you noted, we're kind of holding things in that low single-digit up. So we're not forecasting any great type recovery. But certainly, we feel like where we are from a share position, particularly on aerosols, we do have visibility of exactly where that growth is coming from. I think if we have a great pack season, that's just upside.

Operator

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

Matthew Burke Roberts
Raymond James & Associates, Inc., Research Division

If I could first follow up on George's question earlier. I understand there's certainly a lot of moving parts. Typically, you do guide one quarter ahead as well. So recognizing there are a lot of moving pieces. Wondering if you could help frame EPS for 1Q a little bit better in terms of what you're expecting in terms of volume or any other bridge items there, such as FX impacts or productivity and price/cost?

Robert Howard Coker
President, CEO & Director

Yes, Matt, you named it right from the very beginning. There are a lot of moving pieces. I think there'll be quite a few follow-up calls to help clean up some of the questions you guys may have. But we opted because of that with all the moving pieces going on right now, just [go offs] et cetera, associated with TFP, et cetera. We've just decided that we would go with an annual forecast, and we'll certainly update you on a quarter-by-quarter basis as we move through the year, but that pretty much covers it.

Matthew Burke Roberts
Raymond James & Associates, Inc., Research Division

Certainly understandable there. Maybe on ThermoSafe, I believe as recently as November, you expected to sign something there in early half of 2025 and close out in the middle of the year. Have there been any changes in the thinking or timing there? I believe you noted volumes in the other -- all other segment were negative exiting the year. We've heard some destocking has lingered in pharma end markets. So maybe what are you seeing in terms of volumes in that business? And while ThermoSafe is included in the 2025 guide, are there any assumptions from ThermoSafe and the leverage target? It seems like that changed a bit from the less than 3x that you were thinking previously 24 months after Eviosys.

Rodger D. Fuller
Chief Operating Officer

Matt, it's Rodger. Quickly on ThermoSafe, as you mentioned, volumes were a little soft in the fourth quarter. And really, that's an industry issue, as you said, the pharma slows -- sales have slowed some. We're optimistic about 2025, however. If you look at a number of key areas that we're focused on, GLP-1 drugs is one of those. Last year, the supply of those drugs was so tight. There was a very tight restriction on the number of GLP-1 drugs that could be shipped to clinics, doctors' offices for samples. And as you've seen with one of the largest producers of that, they're now shipping direct to consumer, and that will positively impact our ThermoSafe business.

A lot going on in vaccines. As you know, COVID vaccines have slowed tremendously. We all understand that. But if you look at flu vaccines with the flu season we've had this year, we expect flu vaccines to be very strong in 2025. And there are new products coming out there like [mist] for flu vaccine. So we're still optimistic on ThermoSafe. We've not changed what our expectations are there. We expect the divestiture process to be completed by the end of the year. So that's not changed. And as you've already said, that's built into our deleveraging plan. So we're still optimistic there. The slowdown is an industry issue, but we've got some very specific areas that we're optimistic about in 2025.

Operator

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

Mark Adam Weintraub
Seaport Research Partners

Two clarifications maybe. One, can you help us with the cash flow bridge from your EPS to your free cash flow per share? Because you have EPS $6 to $6.20 and then you also have CapEx lower than DD&A. Not a whole lot of working capital investment, but your free cash flow per share is a good bit lower than the EPS. If you could just help us out there, please?

Jerry A. Cheatham
Interim CFO & VP of Global Finance for Industrial Paper Packaging

Yes, I think probably what you're seeing there on the -- first of all, in our cash flow guidance, it is reflecting kind of a normal working capital profile. And you're probably seeing the impact of some higher interest expense and a higher effective tax rate sort of pulling it down a little bit. So those would be the two items that may be giving you a little bit of a trouble in reconciling that.

Mark Adam Weintraub
Seaport Research Partners

Okay. I'll circle back perhaps with you guys on that after. But also on metal overlap, is there anything of significance that we should be -- that might be included in the guide one way or the other?

Robert Howard Coker
President, CEO & Director

No, Mark. It really isn't pretty much flattish from a global perspective. So nothing material there to talk about.

Mark Adam Weintraub
Seaport Research Partners

Okay. Great. And then lastly, on Eviosys, thanks for the specifics in terms of like what you're expecting. The numbers you were using, does that include synergies for 2025? Or is that 10% increase on the [$390 million]? Or is that ex synergies?

Robert Howard Coker
President, CEO & Director

Yes. I'm glad you asked, Mark. Synergy-wise, we had anticipated that we would achieve a fairly significant percentage of the synergies in year 1. As you'll recall, we announced the deal mid-summer. We did not expect that the U.K. authority, CMA, would take a deep -- semi deep dive into this. So we did not -- we were not able to close until the first week of December, which really put us on our heels in terms of negotiating annual contracts with our major suppliers. In fact, it turned more into ensuring that we had the necessary raw materials to run the global business.

So rather than the majority of the synergies coming in year 1, we're estimating about 1/3 of those synergies coming through, with the remainder really flowing into 2026. So not a lot of synergies there, at least in terms of the context of what we had anticipated. But certainly, we are extremely bullish not only on the procurement side, but the deeper we get into the business through the integration. And the more simplified portfolio being really 2 substrates now, cans and URB and converted products. The opportunity to drive even further productivity through SG&A, that's pretty exciting over the coming years.

Rodger D. Fuller
Chief Operating Officer

I'll just add, Mark. Those synergies -- Mark, sorry, those synergies don't necessarily all fall within that Eviosys result as well. The spread between the other businesses in the Europe and some of the metal business in the U.S. Those synergies are really corporate line.

Mark Adam Weintraub
Seaport Research Partners

Okay. That's super helpful. And then maybe and I apologize, I know I'm going a little long here, but just the shortfall last year in Eviosys relative to what you might have been originally anticipating. Anything specific you can point to?

Robert Howard Coker
President, CEO & Director

There are quite a few items. Obviously, they had some issues with -- I'd say, obviously, but they did have some volume issues earlier in the year, some price/cost issues. Things that happen. I would say that general transaction-related disruptions were a part of it. But at the end of the day, as we noted that we're highly confident in the go-forward outlook of the business.

Operator

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

Michael Andrew Roxland
Truist Securities, Inc., Research Division

Congrats on all the progress. Just wanted to follow up. I think, Rodger, you mentioned European weakness in paper and you quoted -- you mentioned having some work to do. Any way you could expand on that, provide some more color around what you're thinking about doing in Europe to improve the business or maybe just to continue to rationalize assets as you did in Greece?

Rodger D. Fuller
Chief Operating Officer

Yes. Yes, good question. What I was referring to, as you can -- well, most people remember, 6, 7 years ago, we started this process in North America really highly investing in our lowest cost, our best mills and frankly, just taking out high-cost capacity and really just optimizing the network from the paper mill side of the business. And that's really the work I was talking about in Europe. As I said, we took the mill out of Greece. And in my opinion, we just need a more hard focus on really making the difficult decisions around where should we be providing URB in Europe, how can we be more competitive in accelerating our push to invest in our best mills, and we've got some fantastic mills in Europe.

As I said, we've made moves in Greece. We made a move in Ireland to get some unprofitable capacity out of the system. So in my opinion, we just need to accelerate that. We are accelerating that. It just takes time. And in some cases, it takes capital, which we're working through.

Michael Andrew Roxland
Truist Securities, Inc., Research Division

Got it. Is that something that we should expect will be largely done this year as well so that when you look at 2026, this is going to be -- this will be in hindsight?

Rodger D. Fuller
Chief Operating Officer

You'll see improvements this year in Europe year-over-year. That's in the guidance, and we're confident around that. You'll see more moves around capacity in Europe this year. So yes, I think you'll see improvements this year, and they'll flow into 2026, but we're actively working on it as we speak.

Michael Andrew Roxland
Truist Securities, Inc., Research Division

Perfect. Great. And then just one quick follow-up on Eviosys. How is the integration proceeding thus far? And in the short time -- or a short period of time that you've owned it, anything better than expected? Anything not as good. Obviously, you mentioned the synergies with most of that now coming in '26 relative to '25, just given some of the CMA issues. But anything that you've noticed from either positive or negative? And how should we think about the $100 million of synergies and potential upside to that?

Rodger D. Fuller
Chief Operating Officer

Mike, it's Rodger again. Yes, I think the integration is going great, frankly. As we expected, we inherited a very strong leadership team. Our cultures are a perfect fit. We're well down the path of sharing best practices across all critical areas of the business. From a customer and market opportunity standpoint, we have a couple of -- we have some common customers of the large CPGs, the ones you would know. And we think there's good opportunity to leverage those relationships. And there are some large CPGs that one region serves and the others don't. So we see a really good opportunity there.

So we're really -- the extreme focus is on serving our customers and finding new ways to add value across that metal platform. From a supplier standpoint, the purchasing of direct materials, tinplate, coatings, compounds, is a clear area we're focusing on. Howard has already mentioned, we could not even go to market together until January, but we're putting together a strategy as we speak to buy those direct materials globally. From an indirect material standpoint, logistics, those types of things, pallets, packaging supplies, we're looking across our large European platform.

As you know, we've got a large industrial business there, a paper can business there. And now with metal, we're looking at indirect transport cost logistics, leveraging across that European platform. So we're very confident in the $100 million synergy target to get to that $100 million run rate by the end of 2026. And there's also a significant opportunity to leverage S&A across Europe. So again, shared services is a tremendous opportunity for us across those 3 businesses and S&A from an HR and IT, finance standpoint, serving our industrial -- our European businesses in metal, industrial and paper can.

So as I started, I think the integration is going great. We're really pleased with where we are. We're confident in the synergies. We got a late start, but we've got firm plans in place to catch up. And I just think the support from our new family members from Eviosys and the entire Sonoco team has been fantastic. So we feel really optimistic about the integration and the Eviosys business coming into the Sonoco.

Operator

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

George Leon Staphos
BofA Securities, Research Division

So folks, if we could talk about productivity ex synergy, if you had mentioned it earlier in the remarks, forgive me for missing it, but what do you expect for 2025? And how would the mix look across Industrial and Consumer? Secondly, if we think about the supply chain and, Rodger, you were talking earlier about how you're trying to work both direct and indirect now and the work is progressing. Any issues to be concerned about relative to trade, to tariffs and the like, how do you feel about your supply of metal?

And then totally switching gears in metal itself. Can you give us a bit more color on where you're seeing strength in aerosol? Is it coming more from construction markets? Is it coming elsewhere? And within food, what are you doing to sort of diversify the customer base that you've had traditionally or that, that business has had traditionally?

Robert Howard Coker
President, CEO & Director

So George, let me see if I got all of those. Productivity for 2025, roughly somewhere in the neighborhood between -- we're pulling back. I mean, year-over-year, we've talked about it over and over again. Just massive improvements, and it is a year-over-year calculation. So I think we're like $180-some-odd million on top of $130-plus million in 2023. This year, we're taking a more conservative view, again, year-over-year around $60 million to $65 million in the base business. Hopefully, we'll stay on the same kind of track that we've been on.

Rodger D. Fuller
Chief Operating Officer

Yes. And just keep in mind, George, that flexibles and plastics is out of that. So they've been a strong contributor to the productivity. And productivity is built into the Eviosys number you see, which doesn't fall out into that number that I was talking about. So there's another pretty significant pieces of productivity in there that don't show up in that $64 million.

Jerry A. Cheatham
Interim CFO & VP of Global Finance for Industrial Paper Packaging

And George, I would add that from a mix standpoint, the mix of those is pretty balanced between Consumer and Industrial.

Robert Howard Coker
President, CEO & Director

Yes. And on the tariffs, we'll see how they ultimately end up. We don't like them. Certainly, it's an impact here on our U.S. business. And we have mechanisms to pass through without issue, but we're going to do all we can to minimize the impact of that if we can. And frankly, the diversity of the supply chain that we now have gives us more opportunities than otherwise we would have. I would say that if you look at it for the remainder outside of the U.S., keep in mind that in total, roughly 60% of our business is in non-U.S. and serving local markets, supplied in local markets.

So the impact, to your point, really is on the metal side. The paper side of the business is less of an impact. Again, little bit going on between Canada and Mexico, but we'll be able to navigate through that without any type of material issue. In terms of strength, on the aerosol side, yes, we've just seen the demand on the paint side of the business has increased considerably. I think that has a lot to do with -- you can understand the hangover effect of COVID. And I imagine every one of us have got a few paint cans still sitting in our garages. But paints are up. Flu season has been pretty strong. So we're seeing it in disinfectants as well.

So yes, and then on the base business, really focusing on the customers that we have. And historically, there was a share position that the previous strategic owner had that got deteriorated, and we just are working hard in order to satisfy, provide the service quality expected of those customers, and we're seeing that rewarded in increase -- slight increases in share.

Operator

Your next question comes from the line of Richard Carlson from Wells Fargo.

Richard Clayton Carlson
Wells Fargo Securities, LLC, Research Division

This is Richard in for Gabe Hajde. I just wanted to double click on the 2026 leverage target if you guys could. I know it's too early for guidance, but other than the already disclosed asset sales and the Eviosys synergies, are there any other big pieces that we need to be keeping in mind when we work our models? And then on CapEx, there's a good chart you had on Slide 7. Should we think about that kind of a continued trend either towards a maintenance level? Or are you focused more on a percentage of sales basis?

Robert Howard Coker
President, CEO & Director

Yes. I'll let Jerry talk about the leverage. But Richard, the CapEx is actually more weighted towards value-added. I think from our call, somewhere around 60% of the capital that we're forecasting for this coming year is value-added versus maintenance. So we've seen that flip over the last 3 or 4 years, and I've already talked through a number of major capital initiatives we've got, sponsored greenfield plants going up around the world. So pretty bullish about that, understanding that as we invest, it costs, and we'll see the benefit of these plants as they start ramping up '26, '27, '28. You want to talk about the leverage?

Jerry A. Cheatham
Interim CFO & VP of Global Finance for Industrial Paper Packaging

Yes. Yes. As we said earlier on the call, we're targeting to get to 3 to 3.5 -- 3 to 3.3x leverage towards the end of 2026. Obviously, we are moving forward with the strategic alternatives for ThermoSafe, which will -- those proceeds would help accelerate that. But we also believe that strong operating cash flow and strong free cash flow generation will give us confidence that we can get there to that 3 to 3.3x by the end of 2026.

And on your question on capital, we are trying to tilt more of our capital towards a growth and value-generating standpoint. And we do expect to continue to invest in our businesses in that 4.5 to 5.5x percent of sales.

Operator

And that concludes our question-and-answer session. I will now turn the call back over to Roger Schrum for closing remarks.

Roger P. Schrum
Interim Head of Investor Relations

I certainly want to thank everybody for joining us today, and we look forward to further discussions with you. We do have some upcoming meetings with investors and conferences that are posted on our website. So stay tuned for other updates and presentations that we have. Again, thank you for your participation, and you can disconnect.

Operator
This concludes today's conference call. Thank you for joining. You may now disconnect.