Sonoco Announces New Agreements and Operations at Annual Meeting with Financial Community

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NEW YORK, Dec. 7 /PRNewswire/ -- Sonoco (NYSE: SON) has entered into a new strategic supplier agreement and begun operating a new packaging center, it was announced today by Harris E. DeLoach, Jr., president and chief executive officer, at the Company's annual meeting with the financial community in New York City.

(Photo: http://www.newscom.com/cgi-bin/prnh/19991006/SNCLOGO)

STRATEGIC AGREEMENT WITH KRAFT

Sonoco and Kraft Foods North America, Inc. have entered into a multiyear strategic supplier alliance agreement whereby Sonoco will be a preferred supplier of certain packaging materials (including flexible packaging, composite cans and closures) for specified products.

"We are confident that our proven supply chain management expertise that has significantly increased productivity for other customers will enable us to reduce Kraft's overall packaging costs, improve quality and ensure them access to technological leadership in flexible packaging, composite cans and metal closures," said DeLoach. "Approximately $20 million in new contracts have already been secured under the agreement, and we look forward to a long and mutually beneficial relationship," DeLoach added.

He said that the agreement is a result of Sonoco's emphasis on determining and meeting customer and market needs and preferences. In that regard, Sonoco has formed joint teams from the Company's composite can and flexible packaging businesses to provide major consumer sector customers with "One Sonoco Face" service.

DeLoach said that as a result of this approach, Sonoco's flexible packaging business has secured a new contract to supply ready-to-serve packaging for Minute Maid, a long-time composite can customer.

AGREEMENT TO MANAGE HEWLETT-PACKARD CENTER

He also announced that Sonoco has begun managing Hewlett-Packard Company's Americas Product Completion Center in Chester, Va., on a fee basis. Under the three-year accord, Sonoco will manage the facilities packaging supply chain. The Chester facility is responsible for packing Hewlett-Packard's Inkjet and LaserJet printer cartridges. "This relationship is part of Sonoco's growing packaging services business that has doubled its sales annually. In this business, we work with our customers as a partner to help reduce their packaging supply chain costs," stated DeLoach. He said that Sonoco had signed a new five-year agreement last December to continue managing Gillette Company's packaging supply chain for all its razors and blades in North America and Europe.

FIRST NINE MONTHS OF 2001 RESULTS

DeLoach told attendees that during the first nine months of 2001, the Company had seen company-wide volumes decline 4% in the second and third quarters, reflecting the slowdown in the general economy. Volumes were particularly hard hit in the industrial sector, with declines of 8% and 6% in the second and third quarters, respectively, primarily in engineered carriers and paper. He noted that the first nine months were also negatively impacted by significantly lower prices and an unfavorable price-cost relationship for Sonoco's recovered paper operations. Higher energy costs hurt early in the year, though offset partially by an energy supply agreement.

"On the positive side, during the first nine months, the Company enjoyed free cash flow of $155.3 million, including restructuring costs. Sales and profits improved in the consumer segment in the second and third quarters, compared with the previous year, and are expected to do so again in the fourth quarter. These increases reflect the initial impact of $60 million in annualized new flexible business, growing sales and profits in packaging services, improved profits in composite cans and significant improvement in high density film reflecting lower resin costs. The Company has incurred $46 million pre-tax restructuring thus far in 2001 and anticipates additional actions totaling approximately $13 million. Savings from these actions generated to date is approximately $15 million with annualized savings from the actions expected to be approximately $40 million. Continuing restructuring is expected.

CASH FLOW DRIVEN GROWTH STRATEGY

DeLoach reiterated the Company's commitment to achieving its objective of average annual double-digit total returns to shareholders, with returns on capital and equity in the top quartile of the S&P 500. He said that the Company will work toward achieving its objective by employing a cash flow driven strategy, with the majority of cash flow produced by its global market leading businesses -- engineered carriers/paper and composite cans. These businesses enjoy integrated margins derived from recycled paper, acquired through Sonoco's own recovery system, which Sonoco makes into paperboard and then converts into products.

"We expect to generate approximately $900 million of free cash flow (after dividends and capital expenditures) over the next five years, with about $175 million expected in 2001," said DeLoach. He noted that the Company expects capital expenditures in 2002 in the range of $100-$110 million.

"Sonoco aggressively protects its cash flow through such actions as manufacturing productivity, led by Six Sigma and Lean Manufacturing; through purchasing and logistics initiatives; and by emphasizing capital effectiveness which has improved the Company's cash-to-cash cycle since 1998 by some $50 million," said DeLoach.

"We will use our cash flow to enhance, through acquisitions and organically, the top line growth and market position of our major cash flow generating businesses and to increase sales from our smaller, though higher growth rate businesses -- flexible packaging, protective packaging and packaging services," added DeLoach.

He said that Sonoco had made six acquisitions to date in 2001 that should add over $230 million in annual sales. All six acquisitions, which are complementary to the Company's existing businesses, are expected to be accretive in the first year and return the Company's cost of capital within three to four years.

The six acquisitions include U.S. Paper Mills Corp., which produces lightweight paperboard for conversion into cores, composite cans and tubes, and the production of paper cores; a Hutchinson, Kansas, paper mill which will also provide needed lightweight paperboard capacity for mid-western and western markets; Hayes Manufacturing Group, which produces tubes, cores and composite cans principally for upper Midwest markets; Cumberland Wood Products, which produces wooden wire and cable reels; Phoenix Packaging Corp., the leading manufacturer of steel easy-open closures in North America; and a textile tube converting facility in Kaiping, China, which provides Sonoco with a base of operations in southern China to complement its current operations in Shanghai.

"Of course, the Company will also use its cash flow to continue paying dividends, which it has done since 1925," said DeLoach. "We will also use our cash flow to maintain our 'A' credit rating and to repurchase stock when appropriate," he added.

DeLoach said that while industrial volumes remain soft, with no indication of an immediate turn around in light of the current recessionary economy, consumer sales and profits should be up in the fourth quarter, which would be the third consecutive quarter of improvement for that segment.

2002 OUTLOOK

"Looking forward to 2002, we expect continued strong cash flow; improved profits from our high density film operations; some $60 million of new flexible contracts beginning to come on line -- about $30 million to date this year are in our system and the remainder will hit in 2002; we will benefit from the approximate $40 million in annualized savings from restructuring actions, including about $15 million realized in 2001; and the six acquisitions made to date should add about $.10 in additional annualized earnings per share to be phased in over the next 12 months," said DeLoach.

"However, we face the uncertainty of a recessionary economy and will experience non-cash charges related to the impact of stock market performance on the value of investment earnings in our pension plan," stated DeLoach. He noted that the charge, the amount of which will not be determined until year- end, relates solely to an accounting treatment of year-end investment earnings for 2001, compared with year-end investment earnings in 2000. He emphasized that the charge does not reflect the underlying value of the Company's pension plan that remains fully funded.

"I have never been more bullish about our prospects. Sonoco's strong cash flow and 'A' credit rating ensures that we are well positioned to take advantage of further consolidation opportunities in the businesses in which we compete. Furthermore, the significant cost reductions effected over the last year, combined with historically low customer inventories in the markets we serve, position us exceptionally well to benefit when the general economy improves. Meanwhile, we expect to help offset any continuation of weak volumes in 2002 with the $40 million in restructuring savings, commencement of the remaining $30 million out of the original $60 million in new flexible contracts and the phasing in of some $.10 in additional annualized EPS from acquisitions.

"Assuming no further general economic deterioration, we expect that first quarter earnings will be in the range of $.38 to $.42, and that earnings for 2002 will be in the $1.68 to $1.72 range. These figures take into consideration the elimination of goodwill amortization required in 2002 and the estimated impact of increased pension and postretirement expense resulting from lower investment earnings. The net impact of these items lowered the annual earnings range for 2002 by approximately $.10 per share. Most companies will be addressing these same issues in 2002, but as mentioned earlier, there will not be any cash impact from these items," concluded DeLoach.

Sonoco, founded in 1899, is a $2.7 billion manufacturer of industrial and products and provider of packaging services, with approximately 300 operations in 33 countries serving customers in some 85 nations. For more information regarding the Company, visit Sonoco's website at www.sonoco.com .

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CONTACT: Allan V. Cecil, Vice President of Sonoco, +1-843-383-7524, or allan.cecil@sonoco.com
CAPTION: SNCLOGO SONOCO LOGO Sonoco Logo. (PRNewsFoto)[KC] HARTSVILLE, SC USA 10/06/1999