Sonoco Announces Earnings Expectations for 2003, Outlines Four-Year Growth Plans and Discusses New Product Development at Annual Meeting With New York Financial Community

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NEW YORK, Dec. 6 /PRNewswire-FirstCall/ -- Sonoco (NYSE: SON) president and chief executive officer, Harris E. DeLoach, Jr., today outlined plans at the Company's annual meeting with the financial community for reaching $4 billion in sales by 2006 and said the Company expects to report earnings per diluted share for 2003 of $1.46 to $1.50. This forecasted earnings range includes the impact of anticipated higher pension costs in 2003, indicative of the decline in the market value of pension fund assets, which will impact 2003 earnings by approximately $.22 per diluted share. The estimated earnings range, without the impact of these higher pension costs, represents an increase of 13 percent to 16 percent over the mid-point of the Company's 2002 earnings guidance. Estimates for 2003 do not assume any general economic improvement during the year.

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

The Company said that it believes Sonoco's pension fund assets will be underfunded by approximately $60 million at 2002 year-end and therefore expects to fund the plan by year end to a slight over-funded condition. This funding is optional as Sonoco is not required by ERISA to make a pension contribution in 2002 or 2003. However, it will likely be required to do so by 2004. The Company noted that its long-term rate of return assumption is currently 9.5 percent and its discount rate assumption is 7.25 percent. For 2003, Sonoco plans to reduce its return assumption to 8.75 percent and said its discount rate will likely be approximately 6.75 percent.

The Company also said it expects to meet its 2002 fourth quarter earnings guidance of $.35 to $.39 per diluted share, excluding one-time charges. The Company indicated that additional restructuring most likely will occur in Europe to further reduce its cost structure. As a result, another restructuring charge may be announced as early as this year's fourth quarter.

DeLoach said the Company has five primary objectives through 2006. One is to become a $4 billion global packaging company, with almost half of the increase to be generated internally and the remainder coming from acquisitions. "Historically, about 55 percent of our sales have come from our industrial segment and 45 percent from consumer businesses. Our goal over the next four years is to reverse that ratio," said DeLoach.

"Our second objective is to convert these sales into average annual double-digit total returns to shareholders," stated DeLoach. "However, we have fallen short of this goal over the last five years, even though we have outperformed the Dow Jones packaging and container index. Over the last 12 months, we have outperformed the Dow and the S&P by approximately 11 percent and 18 percent, respectively," added DeLoach. He noted that Sonoco's dividends had a current yield of about 3.5 percent and have grown at a five-year compound average growth rate of approximately 5 percent, a 15-year rate of approximately 11 percent and a 30-year rate of approximately 13 percent. He said that the market appreciation portion of total returns has been hurt over the last five years by inconsistent earnings, reflecting in part the manufacturing recession since early 2000, increased pension expense, divestitures of non-core businesses and, more recently, a short-term upward spike in prices of old corrugated containers (OCC), the Company's primary raw material.

"Our third objective is to be in the top quartile of the S&P 500 in returns on long-term capital and equity. We are a leader in the packaging industry and only a few percentage points out of the S&P top quartile," said DeLoach.

"Our fourth objective is to produce continued strong cash flow. We expect cash flow to remain near current levels and that free cash flow, after dividends and capital expenditures, will be in the range of $140 million to $160 million per year over the coming four years. Average annual capital expenditures should be in the range of $125 million to $150 million over the same period.

"Our fifth objective is to maintain a strong credit rating to ensure leverage for the right opportunities. Presently, we are one of only two "A range" rated companies in our packaging peer group. Our debt to capital ratio at year-end should remain at or near current levels," stated DeLoach.

"There are several key factors in meeting our objectives. First, is having the right people in the right jobs. We must have "A" & "B" players, and we have made great progress in upgrading our top 150 management positions. Now, we are evaluating the next 500 positions. I believe we have our strongest team in years," said DeLoach.

"Another key factor is managing with a greater sense of urgency. We simply must accelerate the number and timing of new projects and products.

"In today's environment of pricing pressure, we must challenge the precept that we are the low-cost producer in all our businesses. Where that is not the case, we will determine why and strive to change it. That means plant and personnel consolidations for some businesses and expansion for others. We are employing a variety of cost reduction and productivity improvement tools, including Six Sigma, our 150 Black Belts and Lean Manufacturing. We expect productivity improvements in 2003 between $40 million and $50 million. Since early 2001, we have identified approximately $54 million of structural cost reductions. To date, over 1,000 positions have been eliminated and 14 plants closed.

"Another key factor is the cost of recovered paper (OCC). We believe OCC pricing will become even more volatile in the future as Asia brings on more paper mills. This means an even greater role for our recovered paper operations which provide security as well as a natural hedge against rising OCC prices because we sell significantly more than we collect. We intend to increase the positive impact of these operations.

"To reach our objective of $4 billion in sales by 2006 requires a portfolio of products and services based on customer and market needs, not just on what we have historically offered. Over the next four years, our top line and cash flow growth will primarily come from seven businesses, including our

global market leading engineered carriers and paper operations. Both are strong cash flow generators that will help fuel our newer and smaller, though faster growth, businesses. Their top lines are expected to grow at about the industrial growth rate.

"Protective packaging, also part of our industrial segment, is expected to grow organically in the double-digit range. We are actively exploring geographical expansion in Europe and Asia.

"Our global consumer businesses have been expanded and restructured. They now include rigid paper and plastic packaging, composed of composite cans and selective injection molded, co-extrusion blow molded and thermoformed plastic products. Composite cans are a global market leader expected to grow at about GDP rate.

"Another consumer growth vehicle is flexible packaging. We continue to see strong double-digit sales growth and increasing earnings as issues with new equipment startups improve.

"Because of the rapid growth of metal and plastic closures, a component of our consumer segment, we have now made this a separate business. Steel easy- open closures have been growing over the last few years in the high single- digit range. Only about one-third of the potential easy-open market has been converted to date.

"Finally, our portfolio includes packaging services, providing packaging supply chain management for such customers as Gillette and Hewlett Packard. Over the next four years, we expect to average opening two new packaging centers annually.

"Another key to meeting our objectives will be acquisitions. We have had nine acquisitions since 2001, adding some $260 million in sales. All are on track to meet or exceed our standard acquisition criteria, which is that they must not be dilutive in the first year and they must meet the cost of capital in 3 to 5 years.

"Finally, to meet our objectives, our organic growth will come geographically and from new products.

Geographical Growth

"Currently, our non-North American sales comprise approximately 15 percent of the Company's total. We expect the percentage to increase as we continue to grow our existing presence in some 32 non-North American countries," stated DeLoach. He said that the Company's primary overseas growth will come from three areas: in Europe, where Sonoco is the market leader in tubes, cores and paper operations, as well as composite cans in which the Company is the co- leader. Sonoco is also considering an initial entry into Europe for its protective packaging business. In Asia, the Company serves seven countries with tubes, cores and paper, with China being the largest. Sonoco also is the market leader in composite can operations in the region. The Company also intends to promote easy-open closures in Asia and explore the possibilities in China for protective packaging. And in Brazil, Sonoco is the market leader in tubes and cores, and expects to begin production late next year of steel easy- open closures and ramp up its rigid paper and plastic container business.

New Product Development

"One of the most important components of sustainable, profitable growth is innovation. Over the last two years, we have more than doubled our expenditures for new product and market development over the preceding two years. During that period, we have initiated over 600 new patent applications globally," said DeLoach.

Engineered Carriers

As examples of new products, DeLoach cited such new offerings in the industrial sector as finish-free Sonotube(R) fibre forms for pouring concrete columns without spiral marks, as well as Sonotube fibre forms in different shapes.

The engineered carriers business is also developing a separate business plan and cost structure for tapping into the smaller regional accounts market.

Paper

DeLoach said that the Company's paper operations is one of the Company's mature businesses "that is not acting like one." It is focusing on increased outside sales, such as the less cyclical, consumer-driven tissue and towel coreboard markets. "This division is also the incubator for an exciting new product, SONOBoard3D(R) honeycomb fiberboard, which uses a patented densification process that activates the lignin in the fiber as a natural adhesive producing enough lightweight strength for products ranging from office furniture to military cargo pallets," explained DeLoach.

Protective Packaging

He said that the Company's protective packaging business is combining its patented Sonopost(R) corner posts, historically used for protecting and providing stacking strength for appliances, with clear film to produce Sonoview(TM) clear protective packaging. This product makes it easier for warehousing personnel to identify correct models of such products as appliances and cabinetry, and to prevent delivery of damaged products to customers.

New Consumer Structure

"To help increase the consumer portion of our sales ratio, we have combined responsibility for all our consumer businesses under Charles L. Sullivan, senior vice president - Global Consumer Products. This new sales management structure helps us meet our consumer segment customers' preference for 'one Sonoco face' to provide the most appropriate packaging solution. In addition, we are adding a number of new product and service offerings to help customers differentiate themselves," said DeLoach.

Sonoco

"The 'one Sonoco face' strategy was instrumental in Sonoco's being named a preferred supplier by a major food customer for certain flexible, composite can and closure materials. As a result, we have already won over $40 million in new contracts from this customer," DeLoach explained.

Rigid Paper Containers

DeLoach discussed several new products being developed for the Company's rigid paper business. For example, the SonoWrap(TM) single-wrap package is the only hermetic, shaped package of its type in North America. Sonoco is the first to market a high barrier, cost competitive, shaped paperboard package for products not requiring the same degree of protection offered by the Company's standard composite can.

As part of Sonoco's growing portfolio of pet food packaging, the Company is introducing several rigid paper products in various sizes and shapes that are easy to grip, store and reclose.

New consumer products are also being introduced globally, ranging from an innovative rotor-top shake or pour composite can for a cat litter additive in Canada to a twistable paperboard can with printed, rotating outer segments for cereal in the United Kingdom.

Rigid Plastic Containers

"Many customers want a choice in rigid packaging between paper and plastic. Therefore, Sonoco is developing co-extrusion blow molding, thermoforming and injection molding capabilities for specific niche markets. For example, our plastic squeeze tube technology is unique, involving one- step, thin wall injection molding. This product will concentrate first on the adhesive and sealant markets. We have also developed a variety of barrier structures that enable a plastic container to hold non-refrigerated milk-based products," said DeLoach.

Flexible Packaging

In the flexible packaging arena, Sonoco has introduced its newest innovation for processed foods, Sonotort(TM) retort pouches, which offer consumers a new level of heat and eat convenience.

Promotions are also a lucrative area for Sonoco's flexible packaging innovations. Just in time for the new hit movie, "Harry Potter and the Chamber of Secrets," Coca-Cola Limited asked Sonoco to use some magic to create a promotional label featuring a question about Harry Potter. To find the answer, consumers must buy the Coke(R) and refrigerate it to see the answer revealed. The Sonoco magic is temperature sensitive thermochromatic inks.

Metal and Plastic Closures

"We have created a new stand-alone metal and plastic closures business that complements our rigid paper and plastic packaging business. This new business just acquired an award from a major coffee manufacturer for Sonoco's patented Valved Ultra-seal(R) membrane closure to be used on a 401 metal can of ground roasted coffee. The closure eliminates the need for a can opener and locks in flavor and aroma by using a one-way valve that eliminates the need for a vacuum pack. This marks the first conversion by a major North American coffee producer to the Sonoco closure. We have also recently introduced a new 401 full panel, easy-open closure made from double-reduced steel for use with processed foods. We are currently the only Company capable of producing this closure that makes a can much easier to open," said DeLoach.

Innovation is key to Sonoco's closures business. When San Francisco-based Top 1 Oil Products Company found itself waging a war against counterfeiting of its premium synthetic motor oils in Indonesia, the company called on Sonoco to help create a solution. We embossed both aluminum ends with the company's Top 1 logo and the words "Genuine U.S.A.," and etched the ends with a warning message. Sonoco also supplies the composite can body.

"In today's environment, security of investment is important. We are a 103-year old Company with only one annual loss, and that was a couple of hundred dollars in 1925. We maintain an "A range" balance sheet, one of only two in our packaging peer group, and we have paid consecutive dividends since 1925, which puts us among America's leaders," stated DeLoach.

"We currently pay an approximate 3.5 percent dividend yield. We produce a strong free cash flow which, combined with our balance sheet, puts us in an excellent position to reap consolidation opportunities. We have also significantly reduced our overall cost structure and continue doing so, which gives us an important competitive advantage. Furthermore, our acquisitions since 2001 are adding about $.10 annually as they phase in during 2002 and 2003. We also have over $60 million of flexible packaging contracts ramping up and a growing closures business," he added.

"We believe Sonoco is well positioned to benefit from an economic recovery, particularly in our industrial segment, and believe that our lowered cost structure plus top line growth fueled by strong cash flow, productivity improvement and a strong management team will provide shareholders with an opportunity for average annual double-digit total returns," DeLoach concluded.

Forward-looking Statements

Statements included herein that are not historical in nature are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. The words "estimate," "project," "intend," "expect," "believe," "anticipate," and similar expressions identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding offsetting high raw material costs, adequacy of income tax provisions, refinancing of debt, adequacy of cash flows, effects of acquisitions and dispositions, and financial strategies and the results expected from them. Such forward-looking statements are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management. Such information includes, without limitation, discussions as to estimates, expectations, beliefs, plans, strategies and objectives concerning our future financial and operating performance. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. Such risks and uncertainties include, without limitation: availability and pricing of raw materials; success of new product development and introduction; ability to maintain or increase productivity levels; international, national and local economic and market conditions; ability to maintain market share; pricing pressures and demand for products; continued strength of our paperboard-based engineered carrier and composite can operations; anticipated results of restructuring activities; resolution of income tax contingencies; ability to successfully integrate newly acquired businesses into the Company's operations; currency stability and the rate of growth in foreign markets; actions of government agencies; and loss of consumer confidence and economic disruptions resulting from terrorist activities.

Additional information concerning some of the factors that could cause materially different results is included in the company's reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Such reports are available from the Securities and Exchange Commission's public reference facilities and its Internet website or from the Company's investor relations department.

Sonoco, founded in 1899, is a $2.6 billion manufacturer of industrial and consumer products and provider of packaging services, with more than 300 operations in 32 countries serving customers in some 85 nations. For more information on the Company, visit our Web site at www.sonoco.com.

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