Sonoco Outlines Growth Strategy, Discusses New Product Development And Geographical Expansion, Announces 2004 Earnings Expectations

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NEW YORK, Dec. 5 /PRNewswire-FirstCall/ -- Sonoco (NYSE: SON) President and Chief Executive Officer Harris E. DeLoach, Jr., today outlined the Company's strategy for attaining sustainable double-digit total returns to shareholders and said Sonoco expects to report earnings per diluted share for 2004 of $1.40 to $1.45, excluding the impact of future restructuring charges which cannot be estimated at this time, but which could reduce earnings per diluted share. The estimated earnings range for 2004 does not assume any significant changes in general economic conditions that would impact the Company's customer base and represents a 15 to 19 percent increase over First Call's estimated 2003 earnings per diluted share of $1.22.

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

The Company previously estimated its fourth quarter 2003 earnings per diluted share at $.80 to $.84, including an estimated gain on the pending sale of Sonoco's High Density Film business of about $.50 per diluted share, but not including the impact of future restructuring charges or possible asset impairment charges, if any, related to assets in Asia which, if fully impaired, the after-tax and after minority interest charge would be approximately $.08 per diluted share.

DeLoach said that Sonoco's U.S. pension fund assets are currently fully funded, and the Company does not expect significant increases in its 2004 pension and postretirement expenses. He said, however, that the Company does intend to contribute about $25 million annually to its pension and postretirement plans, which is about the average annual pension payment. DeLoach also noted that Sonoco intends to switch to a defined contribution plan for new employees, effective January 1. While this is not expected to result in a significant difference in cost to the Company, it should make costs more predictable over the long term.

DeLoach said that the Company's primary growth objective is to consistently achieve average annual double-digit total returns for shareholders. He said that to meet this objective, the Company would build on a foundation of 104 years of experience, consecutive dividends paid since 1925 and an A-range credit rating, one of only two in the packaging markets in which the Company competes.

"While we have significantly improved our cash flow and total returns to shareholders since 2000, compared with the 1990s, we are certainly not pleased with our performance to date in this decade, which has been impeded by general economic conditions, certain operating issues, costs of restructuring and pension expenses," DeLoach stated.

ISSUES

He stated that this is the fourth consecutive year that the Company has operated in a depressed manufacturing economy, which has negatively impacted volumes. "We have also experienced continuing pricing pressure and increased costs for raw materials, principally old corrugated containers; pension and postretirement expenses, which have impacted earnings by some $.59 per diluted share over the last three years; and, energy and healthcare costs have risen. We also experienced some new equipment start-up issues in our flexible packaging operations, which we believe are primarily behind us," said DeLoach.

ACCOMPLISHMENTS

"Despite these issues, over the last four years, we have produced strong operating cash flows, averaging over $330 million annually. This cash generated from operations has been used to fund capital expenditures averaging $114 million, and to pay dividends of an average of $78 million. We expect operating cash flow of approximately $270 million in 2003 and should average in the $330 million to $350 million range over the next four years, with capital expenditures in the range of $125 million to $150 million over the period. Capital expenditures for 2003 should be near the bottom of that range," said DeLoach.

"We will continue to reduce debt to help ensure we maintain our A-range credit rating and the resulting financial leverage that provides. At the end of this year's third quarter, our debt to total capital ratio was 41.5 percent," he added.

"Productivity improvement will continue to play a big role and is expected to be in the $40 million range for 2003. Working capital improvement has been an important contributor to cash flow over the past few years, having hit $42 million in 2002, excluding the effect of reclassifying a $100 million bond from long- to short-term debt.

"In August, we initiated some $54 million in structural cost reductions, including the elimination of approximately 320 salaried positions globally and the expected closing of 10 to 15 more plants. Most of the position reductions were completed in the third quarter, and over half of the plant closings should be announced by year end. Approximately $114 million in cost reductions have been initiated since 2001. These actions are designed to permanently reduce our cost structure and help margins return to their previous levels," DeLoach added.

The Company also recently announced an agreement to sell its High Density Film business, primarily plastic bags, at a total price of approximately $123 million. DeLoach said this is not a core business to Sonoco and that the sale should reduce the Company's exposure to the highly cyclical high density resin markets and will permit the Company to redirect the proceeds toward its cash flow usage priorities of acquisitions, debt reduction and, when appropriate, stock repurchases. The sale is expected to close by year end.

DeLoach stated that going forward, Sonoco expects sales to reach about $4 billion over the next four years. He noted this will be made more difficult by the pending sale of the Company's High Density Film business. "While we are not backing away from the $4 billion in sales by 2006, let me make it perfectly clear that we do not view this as an end unto itself. We shall remain focused on profitable sales growth," DeLoach said. "We will drive top line growth through three primary initiatives, each with about equal weighting: acquisitions and joint ventures, growth of existing products through geographical expansion and extension of current technologies, and through new product and market development," he stated.

ACQUISITIONS, JOINT VENTURES, SUPPLY AGREEMENTS

DeLoach said that the Company's criteria for potential acquisitions is that they should not be dilutive in the first year, they should meet Sonoco's cost of capital in three to four years, and they should be complementary to existing businesses and technology.

"While we have not completed any significant acquisitions since 2001, we are actively pursuing a number of acquisition opportunities that we believe would meet our criteria, as well as potential joint ventures. We also recently completed several important supply agreements, including a 10-year agreement to supply Pasco Beverage Company with composite cans for its frozen juice concentrate. Pasco is the nation's leading producer of private-label frozen concentrate and previously produced its own cans. We also have been named as Nestle Canada's exclusive supplier for paperboard cans used to package certain Nestle products in Canada; signed a new three-year agreement with Whirlpool Corporation to supply it with protective packaging for white goods; and concluded a long-term agreement to provide all of Ball Corporation's requirements for easy-open, full panel ends for food cans," said DeLoach.

ORGANIC GROWTH

The Company said it is also driving sales with new applications for existing technologies and geographical expansion. "In Brazil, we are installing three greenfield lines to produce steel easy-open closures for export globally and to serve the Brazilian market. All three lines are already sold out, although commercial production will not begin on the first line until January 2004. A fourth line is expected to be installed later in 2004," explained DeLoach.

He said that in China, Sonoco expects to soon begin operation of a new tube and core facility to serve the growing domestic textile market in Wujiang, as well as current global customers. "This is indicative of our commitment to China, particularly in light of the continuing movement offshore of certain North American manufacturers, particularly in the textile industry," said DeLoach. Sonoco currently has a paper mill and tube and core converting facility in Shanghai and another converting facility in Kaiping.

"The Company is announcing today the opening of a pack center in Euskirchen, Germany, where Sonoco will pack point-of-purchase displays for Procter & Gamble's European Babycare Division. Although Sonoco's facilities will initially be small, they are regarded by Sonoco and Procter & Gamble as a test of Sonoco's capabilities ahead of possible larger projects in 2004 and beyond," stated DeLoach. Sonoco currently operates pack centers for The Gillette Company in the United States and Europe, and for Hewlett-Packard in the United States.

NEW PRODUCT AND MARKET DEVELOPMENT

DeLoach said that over the last three years, Sonoco has concentrated on new product and market development resulting in the filing of over 700 new patent applications globally.

"In our global market-leading composite can business, we are developing a number of new products and technological applications, including a special promotional package for Tetley Canada's herbal teas; a new can with Sonoco's Ultra-Seal(R) foil membrane tops for Folgers' instant cappuccino drink; an interactive Twister-Pak(TM) can directed toward children for Nestle Canada's popular Smarties(R) candies; a paperboard grease cartridge with an easy-open ring pull closure that is a first of its kind for vehicle lubricants in Mexico; and a composite can with a plastic shake-and-pour top and finger-friendly indentations for easy opening for Cargill, Inc.'s Diamond Crystal(R) Kosher Salt," detailed DeLoach.

"Sonoco's next generation rigid paper package, the SonoWrap(TM) single wrap pack, is being used by Paramount Farms to hold pistachio nuts as an upscale holiday treat. This SonoWrap pack combines exceptional color graphics, foil stamping and high performance in a single solution. It is also being used by ConAgra Foods for its new Orville Redenbacher's(R) Drizzlers being sold in Wal-Mart and 7-11 convenience stores. This product had been in a pillow bag before. Another version is planned to be used by a customer for pet treats in an early 2004 launch," DeLoach said.

DeLoach discussed the first commercial application of Sonoco's new blow- molded, six-layer, co-extruded bottle being used for nutritional beverages. Also shown were new flexible packaging for Nestl products, including Wonderball(TM) mini candy and Toll House candy bars, plus flexible packaging for Procter & Gamble's Crest Night Effects(R) teeth whitener.

Examples of conversions to Sonoco's steel easy-open closures were displayed at the meeting, including applications for dog food, infant formula, soup and canned chicken.

Also shown were examples of razors and blades being packaged for The Gillette Company at Sonoco pack centers in the United States and Europe, including the Gillette for Women Sensor 3(R) and men's MACH3Turbo razors, plus the MACH3Turbo blades and Good News(R) disposable razors. Sonoco systems and supply chain management expertise adds value for Gillette by helping postpone customized packaging to avoid inventory obsolescence.

In the industrial sector, the Company displayed its new Sono-White(TM) fiber cores, the first completely white cores made from recycled paperboard which help avoid brown fiber contamination of such products as baby diaper fillings. Also displayed were Sonoco Sonotube(R) fibre forms, used for forming concrete columns, in a new square shape and a new "mar-free" surface version.

Also in the industrial sector, a new flame retardant paper for refrigerator backing was introduced which replaces a similar metal component. And, in protective packaging, the Company displayed its Sonopop(TM) display system for palletizing consumer goods for display in club stores, such as Costco(R) and Sam's(R). In addition, a new product, the Sonoguard(TM) carrier, was introduced as being used by FedEx Express and numerous automakers to ship fragile automotive replacement parts.

Sonoco also unveiled some of its newer technology that is not yet commercialized, including a small-sized composite can that will be marketed as a perfect-sized, low-cost "to go" cup; the Lid Lasso(TM) cap that includes an integrated plastic loop that snaps in place on the top of a rigid package which permits the product to be displayed by hanging it on existing display systems; a one-piece injection-molded plastic squeeze tube for caulks and adhesives; a thermoformed plastic on-the-go cup for holding a variety of foods and snacks; and a new flexible, retort stand-up pouch that comes in

multiple structures, including foil-free clear film.

CONCLUSIONS

In his concluding remarks, DeLoach said that while the Company has not yet seen a significant change in demand in its industrial segment, some volume increases were experienced in October principally in Sonoco's paper operations.

"One month certainly does not indicate a trend. With November and December results, we will have a better picture of whether or not we are truly seeing a change in demand. Meanwhile, we are continuing to reduce our cost structure, develop new products and expand geographically.

"Based on results to date and the expectation of completing the sale of our High Density Film business this month, we still expect fourth quarter earnings per diluted share in the range of $.80 to $.84, including an estimated gain on the sale of about $.50 per share, but not including future restructuring charges and potential asset impairments related to our Asian operations, which, if found to exist, would result in a maximum charge of $.08 per share.

"In summary, Sonoco has 104 years of experience; has paid consecutive dividends since 1925, with a current yield of about 3.5 percent; we have one of only two A-range credit ratings in packaging; we generate substantial operating cash flow; our U.S. pension plan was fully funded at year end, and we have determined that we will switch to a defined contribution plan for new employees beginning in January which should make costs more predictable over the long term; we are the global market leader in engineered carriers and composite cans, our two primary cash flow producing businesses; and we have a customer list that reads like the "Who's Who" of global industrial and consumer companies," said DeLoach.

"In addition, we have initiated over 700 new patent applications globally since 2000 and are filling our product pipelines with many new products; we are committed to continued geographical expansion, such as in China; we are enhancing our business portfolio, including the pending sale of our High Density Film business; and we have announced reductions in our overall cost structure of about $114 million since 2001," added DeLoach.

"Looking into 2004, we expect to benefit from our cost reductions and do not expect a significant increase in pension and postretirement expenses. However, these factors are likely to be partially offset by continued price/cost pressures, the loss of proceeds from the High Density Film business, higher benefit costs and, based on current performance, perhaps improved but less than vigorous volume increases in our industrial segment, at least through the first quarter of 2004. Assuming no significant changes in general economic conditions that would impact our customer base, we expect earnings for 2004 in the range of $1.40 to $1.45 per diluted share, excluding any restructuring charges. This would represent a 15 to 19 percent increase over the 2003 First Call projection of $1.22," said DeLoach.

"We believe that Sonoco is extremely well positioned to benefit from a general economic recovery and to meet our growth objectives going forward," DeLoach concluded.

Sonoco, founded in 1899, is a global manufacturer of industrial and consumer products and provider of packaging services in some 85 nations. Additional information about the Company can be obtained at the Sonoco Web site at www.sonoco.com.

FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION

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," "objective," "goal," 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, adequacy of provisions for environmental liabilities and financial strategies and the results expected from them, and producing improvements in earnings. 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; fluctuations in obligations and earnings of pension and postretirement benefit plans; 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; use of financial instruments to hedge foreign exchange, interest rate and commodity price risk; actions of government agencies; and loss of consumer confidence and economic disruptions resulting from terrorist activities.

Information about the Company's use of non-GAAP financial measures, why management believes presentation of non-GAAP financial measures provides useful information to investors about the Company's financial condition and results of operations, and the purposes for which management uses non-GAAP financial measures is included in the Company's 2002 Annual Report on Form 10- K filed with the Securities and Exchange Commission. 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 Web site, the Company's investor relations department and the Company's Web site, www.sonoco.com.

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